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# ***JPRS Report***

# **China**

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# China

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## GENERAL

### New Ambassadors, UN Representative Appointed

OW2305113690 Beijing XINHUA in English  
1034 GMT 23 May 90

[Text] Beijing, May 23 (XINHUA)—Chinese President Yang Shangkun, acting in accordance with a decision by the Standing Committee of the National People's Congress, has appointed a new Chinese permanent representative to the United Nations and made two other ambassadorial changes.

Li Daoyu was appointed to succeed Li Luye as permanent representative of the People's Republic of China to the United Nations.

Zheng Yi was appointed to succeed Wen Yezhan as ambassador to the Democratic People's Republic of Korea (DPRK), and Shi Chengxun was appointed to succeed Zhang Dezheng as ambassador to the Republic of Botswana.

### ESCAP Meeting Urges Closing North-South Gap

OW0406133390 Beijing XINHUA in English 0929  
GMT 4 Jun 90

[Text] Bangkok, June 4 (XINHUA)—“Although the Asian-Pacific region led the world with relatively vigorous average growth rate throughout the 1980s, most of the region's least developed and Pacific island economies achieved scant progress,” said U.N. Secretary-General Javier Perez de Cuellar.

In a message to the 46th annual session of the U.N. Economic and Social Commission for Asia and the Pacific (ESCAP) which opened here this morning, the secretary-general said “despite substantial progress in many respects, poverty, hunger, disease and illiteracy remain the unrelieved plight of hundreds of millions of Asians and deficiencies in infrastructure and technology, aside from financial resources, also pose serious problems in many countries.”

He noted that the new possibilities for dealing with persistent problems in the economic and social sectors have regional as well as global dimensions. As a whole, it was not a lost decade for development in this region, but the most disadvantaged Asian-Pacific countries continue to need special attention, including additional assistance from the international community.

On the international economic development issues, he said among concerns that need to be addressed urgently are the debt crisis, and the continuing net transfer of resources to the developed countries—a trend which needs to be reversed.

It is also a matter of grave concern that the economic and technological gap between the developing and developed countries continues to increase and there is a need for an improved external economic environment, which

together with domestic efforts, would lead to revitalized growth and development, he said.

“A successful conclusion of the Uruguay Round should include benefits for the developing countries, including agricultural trade,” he said, adding that “the problems confronting developing countries especially dependent on commodity exports also need to be alleviated on a priority basis.”

In his opening statement, ESCAP's Executive Secretary S.A.M.S. Kibria also said that for the Asian masses, no doubt most important is the opportunity to extend to the economic and social sectors the same spirit of cooperation as has recently emerged in the political field.

Such opportunity for greater cooperation will be explored as part of this year's theme-topic discussions of the ESCAP's 46th annual session, Kibria stressed.

## SOVIET UNION

### Historical Cultural Differences Divide CPC, CPSU

90CM0149A Hong Kong KAIFANG [OPEN] in Chinese  
No 39, Mar 90 pp 23-25

[Article by Mu Fu (3668 1133): “Cultural Differences Between CPC, CPSU”]

[Text] The recent approval by the CPSU of a multiparty system for the Soviet Union is a grave challenge to the CPC's one-party dictatorship. When we ponder the possibility of the CPC following in Gorbachev's footsteps, we should examine the two parties more closely.

The noncommunist tidal wave sweeping Eastern Europe has crested. When the Chinese people look at the new Soviet leader with a red birthmark on his forehead, they cannot but ask themselves: Will there be a Chinese Gorbachev?

Before we answer this question, we must find out why the USSR has produced a Gorbachev. The best approach is to see in what ways the CPSU differs from the CPC. After we identify the differences, the answer should be quite obvious. Of course, questions like whether Gorbachev is good or bad and what the future has in store for him are beside the point and will not be discussed here.

Before comparing the CPC and CPSU, some basic data on the latter are in order. Its predecessor was the Russian Social Democratic Labor Party founded in 1898. At its second congress in 1902, the majority led by Lenin (the Bolsheviks) gained the upper hand. In 1917, the Bolsheviks overthrew the czar and the provisional government and founded the Soviet Union. It was renamed the Russian Communist Party (Bolshevik) in 1918 and the CPSU in 1952. Its paramount leaders are Lenin, Stalin, Khrushchev, Brezhnev, and Gorbachev. The party today has a total membership of 20 million.

### The Two Parties Have Different Foundations

Communist parties emphasize that they are parties of the proletariat. Take the seizure of power by the CPSU in 1917, for instance. At the time the Russian proletariat consisted of 25 million people, 17 percent of the nation's population, and the party had a membership of 24,000. In 1976, workers made up 42 percent of its membership, and peasants 14 percent.

When the CPC seized power in 1949, there were 8 million workers in China, only 2 percent of the population. Its membership was almost 5 million (10 million in 1956).

The countryside in czarist Russia was very backward, but capitalism had made considerable headway in urban areas. In 1913 the country's industrial output value already ranked fourth in all Europe. This made it possible for the CPSU to keep its base as a party of the proletariat. In contrast, because of the extreme backwardness of Chinese industry, the number of industrial workers relied on by the CPC was minuscule. Moreover, it had spent long years fighting a guerrilla war to "encircle the cities from the rural areas." For these reasons, the bulk of its members came from the countryside. This is particularly true for the so-called "March 8th cadres" in power today; almost all of them were rural in origin. It is no exaggeration to characterize the CPC as a peasant party or small peasant party. While the party's composition has shifted since the PRC was founded, its leadership has changed little, so the nature of the party is still shaped by its war years experience.

The proletariat, so argues the CPC, is "selfless, far-sighted, and infused with a strong sense of unity," while the peasantry is "selfish, parochial, and shortsighted." As we compare the class basis of the two parties, we should take into account the influence of their class nature on their policies.

### Cultural Differences

To be sure, both China and the USSR boast a long cultural tradition, but they differ markedly in culture, including its level of development.

There were 1,055 newspapers and 1,472 magazines in Russia back in 1913. By 1940 the number of newspapers had exceeded 8,000. China, on the other hand, had just 383 newspapers and 295 magazines in 1950. Even after the Cultural Revolution, there were just 186 newspapers in China in 1978, less than in prerevolutionary Russia. Neither the Soviet Union nor China has lifted press censorship today, there are 5,000 unofficial newspapers in the Soviet Union. In China, on the other hand, there are endless reports that this or that official newspaper has been closed down.

Moving to higher education, college enrollments totaled 180,000 in Russia in 1917 and 6 million in 1981. In China, 1.35 million students were enrolled in college in

1981. The total number of college graduates for the entire 20-year period before liberation was only 180,000.

The gap in cultural development between the Soviet Union and China is undoubtedly mirrored in the quality of the policies of the ruling party. Take the most indisputable case, for example. In 1958, the top echelon of the CPC launched the Great Leap Forward in an attempt to overtake Britain and the United States. The absurdity and ignorance of the leaders' thinking and actions were unprecedented. This event was one of the reasons that led to the split with the Soviet Union at the time.

The cultural policy of the Soviet Union in its seven decades in power is not flawless, but unlike the Mao Zedong clique, it has never persecuted intellectuals on a large scale or deliberately destroyed the cultural and educational system. The Soviet culture belongs to the European family of cultures. The upper crust of Russian society was historically closely related to Western European culture. Thus the humanism of the Mediterranean civilizations has managed to exert a subtle influence even under Soviet communist rule.

In the 1920's, for instance, before Stalin's personal dictatorship was firmly established, there were repeated open debates within the CPSU on major theoretical and tactical issues. Sometimes such a debate could last for years, which would have been thinkable within the CPC.

Or take the issue of sex. Pornography has been much more pervasive in the Soviet Union than in China, but it has never undertaken so-called antipornography campaigns. This is one of the most striking cultural difference between the two.

### Ideological Differences

The question of beliefs is a question of ideology. Are there really ideological differences between the CPSU and CPC? What theories do the two parties believe in or subscribe to? You probably have to write a book to clarify this issue.

There was the world-famous schism between the CPSU and the CPC in the 1960's, which led to armed border clashes between the two countries. These events were also directly related to the outbreak of the decade-long Cultural Revolution. Was the polemic a mere misunderstanding or was there a genuine split? What does this split tell us?

At the time the CPC seemed to be the true follower of Marxism-Leninism while the CPSU had departed from and rebelled against the orthodox faith. Later, after the Cultural Revolution, the Deng Xiaoping line of the CPC went even further than Soviet revisionism denounced by the Chinese earlier. Today we see yet another scenario. In the Soviet Union, Gorbachev's perestroika is close to rejecting one-party communist dictatorship, whereas the CPC has become the most stubborn fortress of communist autocracy in the world.

I always think it is immensely significant to appraise the CPSU-CPC ideological split. What is certain is that, however divided, both practice communism; they just belong to different factions. But what a difference! Just look at almost half a century of history after World War II. The biggest event the CPSU underwent was the denunciation of Stalin, but it has not changed ideologically or institutionally in a major way. Even today's reform has been billed as consistent with Marxist-Leninist teaching. Does the rejection of one-party rule deviate from the Marxist-Leninist theory on democracy? We need not ponder this question long and hard, but it is obvious that ever since the 1917 revolution, the party has maintained a measure of theoretical stability. Even when the CPSU was denouncing Stalin, we could not find the kind of ideological vacuum or crisis in belief that we have seen in the CPC.

When a group of intellectuals was spreading Marxism among the Russian workers in the late 19th and early 20th centuries, studies show, the workers of Petersburg got together to study academic works like *Das Kapital*, circulating handwritten copies. Yet, according to reports in the 1960's, many members of the CPC Central Committee had never even read *The Communist Manifesto*. In 1950 Mao Zedong asked Stalin in person to send experts to China to help him publish theoretical works.

Chinese scholars claim that Maoism is a melting pot of Confucianism, the ideas of Sun Yat-sen, and Marxism. What can be said with certainty is that in its four decades of rule the CPC has committed many outrages totally unpredicted by Marxist classics. According to the world revolutionary outlook of CPC leaders, which they used to conquer and rule China, power is the truth and the party's will is law. To them, Marxism-Leninism is not a set of beliefs but a tool. How else can one explain the wild swings to the right and left in its four decades of dictatorship?

#### Differences in Methods of Government

It is risky to make value judgments on the beliefs of the CPSU and the CPC. The crisis in beliefs in the CPC may prove to be the strongest guarantee of its shift to liberalization. If the CPSU wants a rational and steady evolution, does it matter if it regresses to a fictitious communist humanism? That would not be a bad thing. The fact of the matter is that, instead of the sharp reversals in China, the CPSU has been reforming itself continuously since Stalin's death. It is precisely such reform that has given rise to Gorbachev today.

The CPSU has ruled the Soviet Union for 72 years. The CPC has ruled the Chinese mainland for 40 years. The Soviet Union faced a serious challenge in the Nazi invasion in World War II. That apart, the history of the Soviet party has not been all that different from that of its Chinese counterpart. Both have been marked by power struggles, economic failures, famine, ethnic disputes, and discontent among intellectuals. Still, there are

differences in their methods of government, that is, statecraft, which are worth examining.

The CPSU ruled mainly through secret police terrorism, particularly in the 1930's and Stalin's last years. Stalin personally ordered Yagoda [0068 2047 6671], the secret police chief, to execute in one fell swoop 5,000 detainees, Bolsheviks who had taken part in opposition activities.

Even at its most ultraleftist moment, no records exist to show that the CPC undertook such frenzied large-scale executions. When Mao Zedong was in power, he said many times that people must not be killed casually. But he resorted to another ruse: Use the masses to struggle against the masses, draw in one faction to hit out at another. Let them kill one another—from psychological pressure to the violence of the Red Guards.

During the antirightist campaign in 1957, Mao Zedong visited Shanghai. Soon this story began circulating in the city. Mao Zedong asked Liu Shaoqi and Zhou Enlai how a cat could be made to eat hot pepper. Liu Shaoqi answered, "Hold the cat down and stuff the pepper into its mouth with chopsticks." Mao Zedong rejected the method, arguing that force must not be forced. Zhou Enlai said, "Starve the cat, then wrap the pepper inside a meat pie and feed it to it. The cat would gulp it down without even knowing it." Mao disapproved of that too, calling it deception. Finally he revealed his method: Smear the cat's anus with pepper. Finding it unbearable, it would certainly lick it off with its tongue.

This story reflects the political wisdom of the CPC. The Soviets and Stalin pale by comparison. No doubt Stalin had countless numbers of people murdered indiscriminately, but he used expulsion in dealing with a major figure like Trotsky (admittedly, he had him killed too in the end.) Andrei Sakharov, a political dissident of the 1980's, was allowed to leave the country on condition that he not return. Exile, a punishment practiced in ancient China, is regarded by the CPC as "letting the tiger return to the mountain." Only after the Cultural Revolution did Chinese intellectuals begin to enjoy the freedom of exile. In the dark days before that, including the Cultural Revolution, intellectuals who escaped were few and far between.

To put up with humiliation in order to survive, to compromise out of consideration for the general interest. Such is the philosophy of life characteristic of China. In 40 years of tyranny, everyone, including CPC members, has learned to bend with the wind. How many heroes of indomitable spirit can we find? In the great Soviet purges of the 1930's, while there was a farce of people committing suicide at open trials, historical materials made available recently contain a wealth of rousing and indignant testimony by people about to be executed. To protest the charges leveled at him by the government, Bukharin went on a hunger strike. Even Beria, the secret police chief executed by Khrushchev, fasted 11 days during his trial.

The CPSU and CPC also differ from each other in historical tradition, legal concepts, and national character. These differences have resulted in the gap in historical progress between the two parties and provide a clue to the prospects for future change.

### **Gorbachev Claims Yeltsin Abandoning Socialism**

*OW2505133690 Beijing XINHUA in English  
0103 GMT 24 May 90*

[Text] Moscow, May 23 (XINHUA)—Soviet President Mikhail Gorbachev charged today that Boris Yeltsin's speech to the congress Tuesday "contained an attempt to separate Russia and socialism."

Gorbachev's remarks were made in an address to the Russian Republic's first congress of people's deputies on "sovereignty" or expanding the economic and social powers of Russia.

He said Yeltsin's speech had certain similarities with the document adopted by the 19th party congress and decisions by the Supreme Soviet, but it referred to Russia without using the formal name Russian Soviet Federative Socialist Republic, leaving out the words "Soviet" and "socialist."

But to all Soviets, the choice of socialism and Soviet power represent the main trend of this country, Gorbachev said.

Yeltsin's speech was a call to disintegrate the union under a banner of reviving Russian sovereignty, Gorbachev said, adding that many statements of his speech had denied Leninist principles.

Yeltsin, a former first secretary of Moscow's Communist Party and candidate for the Communist Party's Politburo, said Tuesday that the Soviet Union's largest republic has "sustained the greatest damage from the obsolete administrative-command system that is desperately clinging to life.

He called for more independence and greater power for Russia within the Soviet Union.

### **USSR Advocates Disbanding NATO, Warsaw Pact**

*OW2705150190 Beijing XINHUA in English  
1157 GMT 26 May 90*

[Text] Berlin, May 26 (XINHUA)—A senior Soviet diplomat reaffirmed here Friday that his country supports the simultaneous disbanding of NATO and the Warsaw Pact, the two big military blocs.

Vladimir Granin, counsellor of the Soviet Embassy in Berlin, told reporters that "for the sake of security structure in all the Europe, the Soviet Union stands for a concurrent disbandment of the two military blocs, the Warsaw Pact and NATO."

Moreover, he said the Soviet Union disapproves of a united Germany joining NATO, and believes the unification timetable should be arranged by Germans alone.

The Soviet Union only hopes all outstanding issues can be settled before unification, Granin said.

Listing the issues, he said, for example, that when talking on unification, Germans must take into account the interests of their neighboring countries.

A united Germany should commit itself to the prevention of nuclear weapon production, he added.

Meanwhile, a Soviet Embassy spokesman here told reporters that Moscow stopped withdrawing Soviet troops from Democratic Germany after pulling out two divisions from the country.

Soviet troops remaining in Democratic Germany may face housing problems if they return to the Soviet Union, the spokesman said.

However, observers here believe the explanation is an excuse. Moscow wants to play its remaining 350,000 troops stationed in Democratic Germany as a card to force the West to make a concession over the neutralizing of a united Germany, observers said.

### **Yazov Says USSR Still Faces Military Threats**

*OW3105213790 Beijing XINHUA in English  
1406 GMT 30 May 90*

[Text] Moscow, May 30 (XINHUA)—Although the direct danger of a war has been postponed, military threats against the Soviet Union still exist, Soviet Defense Minister Marshall Dmitry Yazov warned today.

Yazov's remarks came after he attended a party conference of the far east military zone in Khabarovsk, at which he was elected a delegate to the 28th Congress of the Soviet Communist Party.

Yazov said he disagreed with the opinion that the Soviet Union no longer faces military threats and criticized those who attempt to force such ideas on the Soviet people.

The Soviet Union has adopted a series of measures since 1985 concerning reform of the country's armed forces, including rewriting military theory, he said.

The Soviet Union in 1989 excluded from the armed forces railway troops, interior troops of the Interior Ministry and the frontier troops of the National Security Committee (KGB) in a bid to trim the armed forces to a level of sufficient defense, Yazov said.

A program to provide social protection and guarantees to soldiers and their families has been worked out and submitted to the government for examination and approval, Yazov said, adding that the government will also raise soldiers' subsidies.

### **Despite Reform, Soviet Military To Retain Capability**

*OW0306124090 Beijing XINHUA in English  
1156 GMT 3 Jun 90*

[Text] Moscow, June 3 (XINHUA)—Soviet military reform should jeopardize neither the country's defense capability nor the combat level of the military forces, Soviet Defense Minister Dimitriy Yazov said today.

Yazov was quoted by "RED STAR" as saying that military reform was designed to consist the military budget and defense construction with the army's organization structure.

He said the reform was needed to emphasize the quality of the defense, combat and training as well as to perfect the military practice of democracy and enrich the soldiers' lives.

Yazov said military reform should begin with a cut in nuclear and conventional weapons, completing the Soviet troop withdrawal from Czechoslovakia, Hungary, Mongolia, Democratic Germany and Poland and working out new laws on military construction.

He added that the reform then would reduce the number of military forces, reorganize the central military apparatus and cut 50 percent of the strategic nuclear weapons.

He said the military forces can be employed merely based on a decision by the Soviet Congress of People's Deputies, Supreme Soviet and the president.

## **EAST EUROPE**

### **Yugoslavia Protests U.S. 'Interference'**

*OW0106005490 Beijing XINHUA in English  
0149 GMT 30 May 90*

[Text] Belgrade, May 29 (XINHUA)—A senior Yugoslav diplomat made stern representations today to a U.S. Embassy official about a recent interference in Yugoslavia's internal affairs by U.S. congressmen, the official TANJUG news agency reported.

Zvone Dragan, assistant to Yugoslav foreign minister, told the charge d'affaires ad interim of the U.S. Embassy in Belgrade that U.S. Congressman Tom Lantos and his party, accompanied by a U.S. Embassy official, stirred up nationalist feelings during their tour of the unrestful Yugoslav province of Kosovo on Sunday and Monday.

Summoning the U.S. senior diplomat to an interview, Dragan described the action as an interference in Yugoslavia's internal affairs, and nonrespect for the country's system.

During a visit to Pristina, capital of the autonomous province of Kosovo, Lantos and his delegation met with opposition representatives, the agency said, adding that

they also invited the opposition leader Aden Demachi, who served 28 years in prison, to visit the United States.

Moreover, Lantos made a speech at a big rally there, expressing his support for the struggle of the ethnic Albanians in Kosovo, the agency added.

Earlier on Monday, Foreign Minister Aleksandar Prija of the Serbian Republic in a statement pointed out that the provocative acts of the American congressmen had dealt a heavy blow to the relations between the two countries. The Serbia Republic asked the Federal Government to lodge a strong protest with the American Government over the matter, TANJUG reported.

### **Czechoslovak Communists Denounce Halt on Activities**

*OW1905230990 Beijing XINHUA in English  
1602 GMT 18 May 90*

[Text] Prague, May 18 (XINHUA)—The Czechoslovak Communist Party today denounced the outcry of stopping its activities by the Social Democratic Party (SDP) and three other parties.

The denouncement was contained in a statement issued here today by the Political Executive Committee of the Czechoslovak Communist Party Central Committee.

The statement also said that the community [as received] party had admitted its past mistakes and "is ready to contribute to the building of a new, democratic, multi-party free society in the country with a frank and positive policy."

The statement is in response to a joint announcement released Thursday by the Social Democratic Party, the People's Party, the Socialist Party and the Slovak Democratic Party which lashed out at the Communist Party for not having "renounced its goal of making a comeback," and "still threatening the fragile democracy in the country."

The anti-communist statement urged the parliament to open debate on the possibility of stopping the activities of the Communist Party.

"RUDE PRAVO," the Communist Party's organ, said in a commentary today that the joint statement not only violates the existing party law but also goes against the code of conduct announced by the four parties for election campaigns.

As the country's general elections, scheduled for June 8, draw near, anti-communist outcries become increasingly rampant.

Jiri Vyvadil, the Socialist Party chief, when campaigning in the city of Usti Nad Labem, called for suspending the activities of the Communist Party.

Earlier, Prague's procurator, Tomas Sokol, even asked for abolishing the Communist Party and his request

gained support at some rallies sponsored by the civic forum of Prague's semiconductor factory and other organizations.

However, opinion polls published Thursday showed that 72 percent of the pollees agreed that the Communist Party should have equal rights as any other political party in the election campaign.

### **Czechoslovak Parliament Upholds Communist Party Legality**

*OW2005213490 Beijing XINHUA in English  
0548 GMT 19 May 90*

[Text] Prague, May 18 (XINHUA)—Presidium of the Federal Assembly of Czechoslovakia today declared that the Czechoslovak Communist Party remains legal and it is undesirable to consider stopping its activities.

This is the first formal reaction from the Czechoslovak parliament to the May 17 joint statement by the Social Democratic Party (SDP) and three other parties, asking it to stop the Communist Party's activities.

At its session earlier today, the parliament pointed out that a party law it adopted on January 23 affirms the existence of the Czechoslovak Communist Party.

Under the law, the community party constitutes part of the nation's pluralistic political system, the parliament added, hence it is undesirable to discuss the stopping of its activities.

On its part, the Political Executive Committee of the Communist Party Central Committee said today that the party had admitted its past mistakes and "is ready to contribute to the building of a new, democratic, multi-party free society."

"RUDE PRAVO," the Communist Party's organ, said in a commentary today that the joint statement of the four parties not only violates the existing party law but also goes against the code of conduct announced by them for election campaigns, scheduled for June 8.

The SDP, the People's Party, the Socialist Party and the Slovak Democratic Party in their joint statement also lashed out at the Communist Party for not having renounced its goal of making a comeback, "and" still threatening the fragile democracy in the country.

### **Peasant Party May Secede From Solidarity Coalition**

*OW1905181290 Beijing XINHUA in English  
0735 GMT 17 May 90*

[Text] Warsaw, May 17 (XINHUA)—Chairman of the Polish Peasant Party's General Council R. Jagielinski said here Wednesday that his party will make the final decision next month on "the issue of its coalition with the Solidarity union."

In late August 1989, the Polish Peasant Party together with the Democratic Party withdrew from the three-party coalition led by the United Workers' Party, following the United Workers' Party's efforts to form a cabinet.

In the following month, it decided to join the Solidarity-led coalition government.

However, over the past eight months, being critical of the government's agricultural policy, the party's partnership with the Solidarity union has deteriorated and its position weakened.

Recently, some key party members have begun talking about secession from the coalition.

This has alarmed the Solidarity union which, in a secret meeting Wednesday, reviewed the government's agricultural policy and the union's relations with the Peasant Party.

Observers here believe that the Solidarity union may make some concession to the Peasant Party and partially adjust the agricultural policy to fill the rift in the partnership in a bid to stave off a coalition government collapse.

### **SFRY Head Stress Inviolability of Constitution**

*OW1805120890 Beijing XINHUA in English  
0542 GMT 16 May 90*

[Text] Belgrade, May 15 (XINHUA)—Newly-elected Yugoslav President Borisav Jovic stressed here today that the current serious situation in Yugoslavia may lead to a civil war and national disintegration.

In his inaugural speech, Jovic said the democratic reform now underway is aimed at freeing the nation from the crisis rather than plunging it into chaos.

However "There are forces that want, under the disguise of democracy, to abandon the country's socialist construction even at the price of national disintegration. We will categorically oppose this," he said.

The presidency will not be silent in face of the political activities that will kindle public chaos and destroy the unity of nationalities, the President noted, particularly in face of those that refuse to recognize the existence of certain nationalities and republics, demand the realignment of the domestic borders and attempt to occupy the others' territories.

The presidency will permit no brutal attacks on the country's constitutional institutions and anticonstitution acts, such as the set-up of ethnic troops and issuance of ethnic currencies, he said.

Recently, the opposition "Croatian Democratic Union" that won in the Federal Assembly election openly denied the existence of the Muslim, and the Bosnia and Herzegovina Republic during its campaign.

It urged to restore the "historical borders" of Croatia and made territorial claims on the Bosnia and Herzegovina Republic.

Another party, "The Democratic United Opposition of Slovenia," brought charges against Yugoslavia's People's Army and planned to build its own army and print its own money.

What is more, both the opposition parties in Slovenia and Croatia, after winning the elections, demanded new constitutions for their republics.

To stop them, the President warned that republics that adopt their own constitutions by ignoring the state Constitution will bring about a disaster to the country or even finish it.

Jovic said that there are also certain foreign forces trying to influence Yugoslavia's internal development and achieve their strategic goal under the pretext of democratic reform.

But, he declared, it is only the Yugoslavians who have the right to determine their internal affairs.

## Mainland Seen Stressing Stability, Economic Growth

90ON0386A Hong Kong CHING PAO [THE MIRROR] in Chinese No 151, 10 Feb 90 pp 36-39

[Article by Zhang Mu (1728 3092): "Investigation of 'Major Cases' Weakens, Clamor To Eliminate 'Liberalists' Increases"]

[Text] The CPC has promised to publicize major and important cases of punishing corruption but, so far, no sensational cases have been made public. They also proposed that in investigating they should in particular prevent public opinion from turning against official profiteering and even turning against the existing system. On the other hand, they stress that they should eliminate "liberalist" elements still in positions of authority.

One of the most evident changes on the Chinese Communist political scene as the nineties began was that Deng Xiaoping no longer appeared in public. Although he sometimes appeared with friends or public figures after retiring from political life, including having a chat with Li Jiacheng [2621 0857 6134], the richest man in Hong Kong, during his recent visit to Beijing, the media on the Chinese mainland have not said a word about it. This conforms to Deng's statement that he would no longer give people the impression that he was influencing the political situation.

As far as the general situation is concerned now, Jiang Zemin's system hopes to spare no effort to maintain social stability on the one hand, and to strive to realize the goal of improvement and rectification in two or three years of "austerity," on the other. Both the lifting of martial law in Beijing and the Spring Festival of "joy, good fortune, and culture" mentioned by Li Ruihuan [2621 3843 3883], clearly obey the directives mentioned above. *As concerns matters within the CPC, along with the beginning of the party membership registration activity, Jiang Zemin and Song Ping, who is in charge of party affairs, both gave hardline speeches about "administering the party strictly" and changing the severe problems of "impure ideology, organization, and work style" within the party to eliminate "liberalists" who still hold positions of authority. This is to safeguard the CPC's leadership position and the socialist system that has been in power for the past 40 years from being overthrown.*

### Lifting Martial Law and Sanctions

In last December's issue of this magazine I revealed that high-level CPC figures were saying that martial law would soon be lifted. The situation turned out as I had said. It should be noted that the upper echelons of the CPC had deliberated on this already last year. Subsequently, several university students carrying banners saying "Why is China so poor?" and demanding "reform of television news" demonstrated at the entrance to the Ministry of Radio, Cinema, and Television near Fuxingmen in Beijing on 9 December. On the heels of that was the shock of the political storm in Romania. Since

the CPC was worried that lifting martial law at this point might inspire new disturbances, they postponed the date of the announcement.

Because the Spring Festival is the most important traditional Chinese festival and the CPC knows how the masses feel about festivals, it might have influenced social opinion for as long as six months. At the same time, social order in Beijing had returned to normal and the firearms lost during the 4 June disturbance had almost all been recovered. For martial law to continue for a long time is really not good policy. However, it wasn't until 10 January that Li Peng, who had declared martial law in the first place, announced in a speech that martial law would be lifted effective 11 January.

Earlier, speaking at a forum of student representatives from Beijing institutions of higher learning, Chen Xitong [7115 1585 0681] revealed that more than 60 percent of the approximately 4,000 persons taken into custody after the 4 June incident had been released. Not long before, the Ministry of Public Security had announced the release of over 600 persons. What is of note is how those persons declared guilty were judged by judicial procedures.

In my view, Beijing's lifting of martial law has a greater impact abroad than at home. Since October of last year, Beijing martial law units have been withdrawn constantly from duty in urban regions and, among public places, only the Tiananmen Square area could not be entered without authorization. Subsequently, it was being guarded by armed public security police. Therefore, as far as the masses were concerned, the only change brought by lifting martial law was that they could enter Tiananmen Square, where so many disturbances had taken place. Thus, the general reaction was rather calm.

However, the lifting of martial law affected overseas tourists, foreign merchants negotiating trade and investment, political sanctions of major Western economic powers, and so on. As I understand it, the Chinese state travel bureau had designated last year as "international travel year" and had planned on earning \$2.6 billion in foreign exchange income. After the 4 June disturbance the number of tourists diminished sharply, especially in Beijing, and the planned foreign exchange income nationwide fell by one-half, though, in fact, it came to \$1.7 billion. After autumn, there were still quite a few foreign businessmen and tourists who went primarily to places other than Beijing and Lhasa.

Beijing's lifting of martial law not only eliminated concerns among tourists and foreign businessmen about coming to China, but also eliminated a topic of discussion at the March meeting of the National People's Congress [NPC]. The Western media think that lifting martial law is in response to the two visits of U.S. President Bush's national security adviser. But it is actually more as former President Nixon advocated: that both sides take the initiative to carry out harmonious



actions. Bush approved the sale of three satellites to China. On the eve of the announcement of the lifting of martial law, France halted the sale of warships to Taiwan. State Council Member Zou Jiahua [6760 1367 5478], visiting Japan, indicated that the "sanctions" of the Western countries were flexible.

What merits notice is that both the Chinese and the Japanese adopted a low-key treatment of Zou Jiahua's visit to Japan. Very few reports appeared in the press on either side. After Bush vetoed the bill from the U.S. Congress, he issued an executive order permitting Chinese students in the United States to extend their visas, even permitting long-term residence. In response, the higher echelons of the CPC knew very well that the Western "sanctions" would continue. Li Peng advocated upholding principle, not changing policy, working harder to smash the "sanctions." Deng Xiaoping recently said that, when the seven Western powers informed China of the "sanctions," their attitude was that of the "eight allies" of an earlier time, but the CPC is not the Qing government of that earlier time. CPC General Secretary Jiang Zemin said that they should hide their capacities and bide their time, conserve strength and store up energy, and continue to work and to hold the banner of socialism firm. They absolutely cannot be careless about strengthening international cooperation, and upholding reform and opening up. Recently, the UN Security Council passed a resolution on Cambodia that actually reflected the Chinese authorities' earlier flexible foreign policy strategy.

#### Stability Which Prevails Over All

The CPC has repeatedly stressed that a stable general situation is the central mission now, with the aim being to eliminate various unstable elements in the grim political and economic situation to avoid sparks from setting off new unrest.

*After the 4 June incident, the CPC adopted seven measures, including punishing such corrupt phenomena as "official profiteering" and bribery, and began to put companies in order. It also promised to make some major cases public to pacify the people's anger. Yet, after more than six months, no sensational cases have yet been made public. The inherent causes are self-evident.*

In all fairness, in carrying out such measures as reporting and self-confessing crimes and the comprehensive scrutiny of the law and discipline departments punishing corruption, the CPC has clearly achieved results. Criminal activities and such things as wining and dining, the fever to go on overseas observation trips, traveling at public expense, monetary bribes, and entertaining and giving presents have been greatly restrained. Take, for example, the three administrative "company fevers" that have appeared since the eighties. The first was characterized by industrial and commercial reorganization and joint management of enterprises. Subsequently, because state agencies were combined, authorized strength was shifted, and companies were reconstructed,

by 1983 there were nearly 3,000 newly established companies, most of which were administrative companies, while not quite 30 percent were economic entities. The second was rapid growth of "joint government-enterprise" companies and a large number of "fly-by-night companies" and "authorized companies." These generally had administrative officials serve concurrently as chairmen of the board, directors, or general managers and they merged planning and materials management, administrative functions, and participation in market regulation. By the end of 1985 there were 270,000 such companies. The third was the merging and overflow of "company fever" and "business fever." In 1986 the number of various types of companies nationwide had diminished to over 180,000, but with the overheating of the economy and the sharp increase in demand, and with the addition of further expansion of pricing's "dual-track system," by the end of 1988 there were over 400,000 "profiteering" companies engaged in "official profiteering," "private profiteering," "combined official-private profiteering," and "private profiteering aided by officials." The CPC adopted a policy of "first investigate, then eliminate, and combine investigation and elimination"; most were eliminated or merged. Simultaneously, the management method of examination and approval by multiple organizations was changed; in order to prevent the comeback of "company fever," a unified and integrated system to regulate and control the examination and approval, registration, management, and supervision of companies was established.

#### The Two Meetings May Have Some New Moves

*With regard to investigations, the CPC has adopted the policy of being strict within the party and relaxed outside it, and doing much but talking little. In particular, they have paid attention to preventing public opinion from turning against "official profiteering" or even turning against the existing system. Thus, some sensitive major and important cases have been handled by the officials themselves, and were not made into major public issues like "attacking the tiger" in the rectification of party style in 1985.*

For just this reason, in implementing Deng Xiaoping's suggestion to "be more courageous in reform and opening up," the new CPC echelon repeatedly studied the political reform policies that their members were generally following with interest. At the beginning of the year, Jiang Zemin himself held discussions with officials of the democratic parties, and again raised and promoted "a system of multiparty cooperation led by the CPC," the major issue of improving consultative discussions, and so forth. Yet, specific proposals announced early last year by Song Kun [1345 1024], deputy head of the CPC United Front Work Department, such as restoring democratic party factions' participation in government to the level of the early years when the CPC was founding the country, and winning control of one-third of the agencies in the government, have already been buried. Such things as

"liberalization of decisionmaking," "increasing transparency," "plurality vote," etc., also need a lessening of social unrest and are subordinate to the major issue of general stability.

Deng Xiaoping announced that the National People's Congress system is an important manifestation of political democracy. And it appears that appropriate new political reform moves may come from this spring's sessions of the NPC and the CPPCC [Chinese People's Political Consultative Conference]. Of course, with Deng Xiaoping stepping down as chairman of the State Military Commission and Zhao Ziyang's removal as deputy chairman of the Military Commission, there will be widespread interest in who will assume these positions. Jiang Zemin, who originally was not an NPC representative, last year met the qualifications by being elected to the Shanghai People's Congress in a by-election. Whether he will become a candidate for the chair of the State Military Commission or whether it will be assumed by another national chairman is hard to tell at the present.

### Three Measures for Increasing Revenues

At the National Planning and Finance Work Conference convened late last year, it was determined that this year's budget deficit would be 9 billion yuan, 10.6 billion yuan lower than last year. However, this year's domestic and foreign debt repayment has already entered the peak period and requires increasing financial expenditures by over 10 billion yuan. In addition, the burden of central finances will clearly be heavy as increased wages of some cadres and employees and increased purchase prices for agricultural sideline products will require increased state expenditures.

For this reason, the state will adopt three measures to increase central revenues:

1. *Adjust tax policies for township enterprises and for individual businesses.* Currently, township enterprise taxes are usually returned to the county and rural area for their use. To ensure central government finances, they decided to levy a special tax as a priority tax that will go directly to central finance.
2. *Adjust the base number of financial responsibility for coastal provinces.* In the past few years the coastal provinces' economies have developed more and they should make greater contributions when the national economy is in difficulty. The incomes of Guangdong and Jiangsu have increased substantially in the past few years, so their financial responsibilities to the state should be adjusted and increased.
3. *Adjust the base number for enterprise contracts in accordance with industrial policy.* The emphasis is on limiting the development of processing industries and encouraging the development of basic industries and large and medium-sized industries, and increasing financial revenues and promoting improvement in the economic makeup by adjusting contract base numbers.

In addition, a series of specific measures to increase income and reduce expenditures have been adopted. These include strictly controlling group consumption, reducing expenditures of organizational and managerial departments, increasing tax revenues from individual businesses, strictly attacking tax evasion, etc. According to reports, tax income from individual businesses increased 6 billion yuan last year as a result of the attack on tax evasion. As for the major targets of improvement and rectification, last year fixed assets investment actually contracted by 50 billion yuan, which is quite different from the 90 billion originally planned. According to reports, the current scope of construction nationwide is still 1.3 trillion yuan, but actual construction will require 1.7 trillion yuan. Thus, effective measures to sort things out and cut down must be adopted. Specialists also think that we cannot begin new major projects for at least the next three years.

*Currently, while eliminating corruption and making government honest, the CPC has painstakingly studied the social causes of corruption within the party and admitted they included a certain "profit motive." Thus, it is necessary to establish a mechanism to dig out the profit trend, implement the principle of breaking up profits, resolve the unreasonable phenomenon of "intellectual and physical labor being turned upside down," make the salaries of cadres and scholars sensible and gradually establish a better system.*

There are reports that the CPC authorities have stipulated that within five years they will strive to resolve the difficult issue of distribution that is people's general concern. This includes implementing an employee wage scale for state civil servants that maintains general parity in wage levels with enterprise managers. A specific proposal has already been drafted. Institutions such as education, scientific research, medical, and related departments will establish a hierarchical wage system for unique specialized and technical jobs, establish a sensible wage standard, increase the gap between grades, the wages of specialists with outstanding contributions may exceed those of national leaders, and, in response to special needs, establish a reward system. Institutional units and state agencies should establish a wage increase system to systematize and standardize wage increases, with regular promotion and cost of living increases. They should permit compensation for intellectual service and at the same time correctly guide and manage in order to ameliorate some of the contradictions of "intellectual and physical labor being turned upside down." *Taking into account the rise in prices, this year the state will survey wages of agency and institutional unit cadres and employees (including cadres who resigned or retired) and will resolve the wage problems of scientific research, educational, and medical departments.*

### Consolidate State Authority and Govern the Party Strictly

The upper echelons of the CPC understand that the upsurge in thoughts of liberalization" led by university

students last spring and summer exposed the lax management and the serious weakness of ideological and political education in institutions of higher learning. Higher education followed whatever disorder the "Westernized elites" of the social science system created. Many students took delight in talking about the theories of Freud, Sartre, and Nietzsche and new Westernized terms and concepts, but lacked interest in such orthodox courses as political philosophy and socialist theory. Some schools even dropped some related courses. In the name of free discussion and compatibility, proposals denying the leadership of the CPC and the socialist system passed unobstructed and even became "fashionable."

In sum, the upper echelons of the CPC felt that the leadership of former Secretary General Zhao Ziyang, which was weak and weakened the party, was the disastrous effect of the "theory of transformation" proposed in ideological and political work.

In early 1990, the CPC periodical on theory, QIUSHI [SEEKING TRUTH], published a long article severely criticizing Zhao Ziyang's "theory of transformation" and called it "the banner of bourgeois liberalism," whose chief aim is in essence to pander to and support changing the party.

Zhao Ziyang had said "ideological and political work is not purely a matter of strengthening, but is also a matter of transforming." That is, "we should transform and update in terms of our systemic, concept, content, and style methods" and expect to "build a new pattern in ideological and political work." When explaining this, Bao Tong [7637 1749] stressed that the tradition of ideological and political work "was formed in revolutionary and armed struggle. It is a mass movement that took shape after the founding of the PRC, when mass movements were constantly being strengthened, and that takes class struggle as its platform. We should recognize in particular that we are now building and not fighting a war." Thus we should bring order out of chaos and "transform tradition."

The QIUSHI article recognizes that Zhao Ziyang's "theory of transformation," which emphasizes "concern for people, respect for people, and understanding people," denies the principle of the party nature of ideological and political work. The words "unity, democracy, harmony, and friendliness" proposed by Bao Tong which were popular for a while denied the ideological struggle and the transformation of the world view and encouraged the flood of thought on "liberalization." The article also recognized that the "theory of transformation" weakened political nature, opposed upholding an advanced ideological system, and stressed consultative dialogue, dredging methods, and democratic principles.

Consequently, it denied principles of positive education and inculcation and led to an increase in the use of "forums" and "salons." The "new pattern" of concurrent and after-work ideological and political work proposed by Zhao Ziyang seriously weakened the ranks of political workers, created considerable ideological confusion, and so forth.

Zhao Ziyang had tried to defend "theory of transformation" and held that Mao Zedong had also written an article, "Transform Our Study," and proposed "the theory of unified transformation and improvement." However, when the new echelon of the CPC found that ideological organization building and theoretical propaganda had suffered in recent years, General Secretary Zhao Ziyang, who was said only to stress the economy, was declared to have committed "unpardonable serious errors."

#### The Greatest Danger Is Within the Party

Jiang Zemin knows that the greatest danger comes from the "liberalist" elements within the party, and that the serious impurity in the party's ideological organization must be resolved to ensure that leadership authority at all party levels is in the hands of true Marxists. Not long ago, Duan Junyi [3008 0689 3015], a member of the Standing Committee of the Central Advisory Commission, and Xu Cai [1776 2088], vice president of the All-China Sports Federation, announced after being assigned to the NCNA that their primary mission was to investigate problems of the agency's first-level leadership team. It appears that the reregistration of party members already begun in Beijing will be carried out in strict accordance with the nine stipulations issued by the CPC. Currently, some agency units have already held party member study classes.

Jiang Zemin stressed that they must clearly understand and distinguish between the two reform directions. One is to uphold socialist self-improvement and one is to evolve toward capitalism. The CPC matured in a long period of struggle and was not influenced by the Second [Communist] International. The Chinese Army has a strong ideological and political foundation and has been through a long period of testing and has accepted the absolute leadership of the party. The peripheral circumstances of China's geography are different, its traditional cultural system is independent, and the greater the pressure from abroad, the more united it has become, as in the formation of the united front during World War II. Thus, they will hold fast to the socialist course.

Li Peng announced that "liberalism" has a sizable market among some people. It cannot be said that there will not be more disturbances in China. Minor disturbances or disorders may occur, but if they do, they must be resolutely nipped in the bud.

## NATIONAL AFFAIRS, POLICY

**Leading Experts Discuss Problems in National Economy***90CE0218A Hong Kong WEN WEI PO in Chinese  
21-30 Apr, 2-6 May 90*

[Article by Beijing correspondent Chen Jianping (7115 1696 1627): "Experts and Scholars at Seminar Note That Improvement of China's Economic Environment and Restructuring of the Economic Order Have Succeeded Outstandingly, But Getting Out of Economic Adversity Awaits Further Efforts"]

[21 Apr 90 p 2]

**[Text] Namelist of Forum Attendees**

Ji Chongwei [1323 1504 1218]: Secretary in charge of day-to-day business, State Council Developmental Research Center

Zhan Wu [6124 2976]: Secretary in charge of day-to-day business, National Economic System Reform Committee

Zhou Shulian [0719 0647 5571]: Director, Chinese Academy of Social Sciences, Industry Economics Research Institute

Zhang Zhuoyuan [1728 0587 0337]: Director, Chinese Academy of Social Sciences, Finance and Economics Research Institute

Chen Jiyuan [7115 0679 0337]: Director, Chinese Academy of Social Sciences, Rural Development Research Institute

Zhao Haikuan [6392 3189 1401]: Director, People's Bank home office, Finance Research Institute

Yang Peixin [2799 1014 2450]: Research fellow, State Council Developmental Research Center

Luo Yuanzheng [5012 0337 6927]: Member CPPCC [Chinese People's Political Consultative Conference] and professor of economics

More than a year of improving the economic environment and restructuring the economic order has been successful, but China's economic situation is currently fairly complex, new and old contradictions overlap. Getting out of the economic predicament will require further strenuous efforts. This was the rather unanimous view of the economic experts who attended the seminar on the Chinese economy that this newspaper convened in Beijing.

On 18 April this newspaper held a seminar on China's economy in Beijing. The seminar was chaired by the newspaper's deputy director, Chen Bojian [7115 0130 1017]. Members of the seminar included Ji Chongwei, Zhan Wu, Yang Peixin, Luo Yuanzheng, Chen Jiyuan, Zhou Shulian, Zhang Zhuoyuan, and Zhao Haikuan, all noted Mainland China economists. At the meeting, Ji Chongwei also relayed the views of Ma Hong [7456 3163], general secretary of the State Council Development Research Center.

Chen Bojian said that an overwhelming majority of Hong Kong compatriots hope for the stability and economic development of the motherland; thus, they are interested in and concerned about current economic conditions in China today. The newspaper's goal in holding this seminar was to gain an understanding from the views of the economic experts of the true economic situation in China, and it hoped further to understand the specific measures taken to implement the measures contained in the government work report.

Many of the experts believe that a key issue in the mainland economy today is the market issue, and they discussed their individual analysis of this problem.

On the issue of how to solve China's current economic problems, the experts offered the following suggestions.

- The retrenchment policy cannot be changed, but a close watch must be kept on dynamics.
- Bank loans may be increased to provide working capital.
- Gradually increase fixed asset investment.
- This is an opportune time to remove restrictions on commodity prices. the opportunity to remove restrictions on commodity prices should not be lost.
- The regulatory role of the market economy must be used to the full under the planned economy.
- Banks should establish a products structure credit to increase effective supply to society.
- The state should use foreign exchange obtained from foreign trade to set up a foreign exchange stabilization fund to provide a source of credit for the supply of goods to markets.
- Loans should be issued for Sino-foreign joint venture enterprises that have not yet gone into operation because of the Chinese partner's lack of renminbi counterpart funds.
- Investment system reform to enable the use of the unbudgeted funds of local jurisdictions and enterprises in key state construction projects.

The experts surveyed the Mainland China economic situation in the course of discussions, concluding that the economy was still in trouble in the second quarter of 1990, and that a firm grip on measures already taken will be required to turn the corner during the last half of the year.

During the seminar, Chinese People's Bank home office Finance Institute director Zhao Haikuan disclosed that mainland banks are energetically removing currency from circulation. Both the large rate of increase in savings accounts and the huge amount of money in savings are unprecedented. He believed this to be a good event.

[22 Apr 90 pp 1, 2]

**[Text] Statement by Zhao Haikuan, Director, People's Bank Home Office, Finance Research Institute**

*(Editor's Note: Beginning today, this newspaper will publish each day the statements from eight renowned Chinese economic experts who attended the "Mainland Economy Forum," which this newspaper convened in Beijing on 18 April.)*

### Huge Issuance of Banknotes Brought Under Control

There are all sorts of views about the current situation. I will talk about my personal views.

First of all, I feel that as far as the work of our bank is concerned, the implementation of the policies of improving the economic environment and restructuring the economic order, and of deflation during the past year and a half have achieved a great deal, and that the results have been remarkable. Several points illustrate this contention.

1. Very great changes have been made in the issuance of currency; the former problem of huge issuances of banknotes has changed; and the reckless issuance of banknotes has greatly diminished. In 1989, 21 billion yuan worth of banknotes were issued in a 9.8 percent proportional increase. Banknote issuance has not exceeded 10 percent. This had not been the case in China for many years. During 1988, 68 billion yuan worth of banknotes were issued in a 46.7 percent proportional increase. Thus, in terms of both absolute figures and proportional increase, banknote issuance in 1989 was greatly different from the large-scale issuance of 1988. The currency situation during the first four months of 1990 also improved over the same period in 1989. The withdrawal of currency from circulation during the first quarter has begun. The amount withdrawn is very large and the withdrawal is being pursued with great vigor. The inflation problem has begun to change for the better.

2. Savings accounts have grown by an unprecedented amount. Savings during 1989 increased by more than 12 billion yuan more than during the 33-year period from 1952 through 1984. Growth momentum in 1990 is even more vigorous. This is also an indicator of the present state of the economy.

### How To Regard the Great Increase in Savings

Some people feel that such a large increase in savings is not good, but I believe that the increase in savings is very good. The increase in savings is one of the reasons for the success of the policy of improving the economic environment and restructuring the economic order, and it is also a reflection of the success of the policy of improving the economic environment and restructuring the economic order. (Ji Chongwei interjected, "The prestige of the People's Bank has risen. People formerly anticipated a rise in prices; now they believe that prices have stabilized and that it is therefore more advantageous to save than to buy things. Another reason is that people say there are some lean years ahead, so everyone is worried about the future. It is better to save a little money. In addition, interest has increased, so saving more money is more profitable than buying things.")

Interest on savings accounts is still low. Banks insure the value of money kept in accounts for three years or more, which is better than keeping money at home and letting it depreciate in value. Following the panic buying of July and August 1988, people got the idea that since the commodity economy is not very well developed in a socialist country, hoarding goods is of no use. Therefore, savings deposits are a manifestation of improving the economic environment and restructuring the economic order. The ordinary people realize that with the gradual stabilization of prices, having money in the bank is more dependable. People have confidence in the development of the entire economy and in the future of the country.

3. One important goal in improving the economic environment and restructuring the economic order is to stabilize prices. It now appears that success has been won against this problem. In 1988, the price rise index was 18.5 percent; in 1989 it was 17.8 percent. On the surface, this appears to be a slight decline, but analysis shows a substantial change in prices. This is because the 17.8 percent in 1989 was an average figure for the entire year, and it was only during the last half of 1988 that prices shot up. Prices increased much more during the first half of 1989 than during the same period in 1988, making the average rise in prices higher for the whole year. During the second half of the year, the rate of increase declined slowly. Comparison of the end of 1989 with the beginning of 1990 shows a 6.4-percent rise in prices. This is an extraordinary achievement. During the first quarter of 1990, prices rose five percent over the same period in 1989, clearly showing very great results in attainment of the goal of stabilizing prices. (Ji: "This is the most opportune time for price adjustments. Economists throughout the country generally believe that China should institute price reforms now.")

Second, there are quite a few problems today requiring earliest study and solution. Looked at from the bank's standpoint, they are as follows:

1. The market slump has to be acknowledged. Commodity retail sales during 1989 totaled 810 billion yuan, an 8.9-percent increase. After adjusting for price factors, sales decreased 7.6 percent. During the last half of 1989, in particular, retail sales increased very slowly following the market slump. Many commodities could not be sold, and the market for household electrical appliances, high-quality consumer goods, and woolen yarn was depressed.

2. Enterprises have a shortage of working capital. This is a problem everywhere. No matter whether large or small, the shortage of working capital in enterprises is general. Large enterprises get "special consideration" for loans. Every time a large enterprise makes a loan, it borrows a little more. Some are woefully in arrears in repaying loans, and medium- and small-sized enterprises are in arrears in payments due large enterprises, or else the large enterprises are unable to get payment after they sell commodities. As a result, large enterprises are also very short of working capital. Now that the market is in a slump, many goods that have been produced cannot be

sold. Finished goods that enterprises have produced are accumulating in inventory, and even if some of them could be sold, payment for them would be slow in coming. Thus, enterprises' normal operations are impeded.

### What To Do About the Market Slump

3. Production has declined. October 1989 showed negative growth. The first two months of 1990 also showed negative growth, and in March the increase was 1.4 percent. The entire first quarter is on a par with the same period in 1989. (Digression: This situation requires concrete analysis. Energy and heavy industrial raw and finished products continue to increase; light industry shows a slight increase or decline. Conditions vary.) Such a very low increase or negative increase in production for half a year is a rarity in China.

These three problems may be capsulized as being basically a single problem—market slump. The main reason for no forward motion in production is the shortage of working capital, which makes the sale of finished goods and the normal cycling of funds impossible; and the main reason for the shortage of working capital is the market slump. Therefore, I believe that the main problem is the market slump. Market slump problems were discovered during the fourth quarter of 1989, and the government began to take action then. One major action taken was to increase bank credit. More loans began to be issued during the fourth quarter of 1989. These actions produced results in the form of an easing of the seriousness of the working capital shortage. Nevertheless, it now appears that anticipated results have yet to be achieved; the changes have not been very great. I believe the fundamental problem is that sole reliance on increasing bank credit cannot solve the problem in a situation of market slump and inability to sell finished goods. A vicious cycle occurs when bank credit is increased, more raw and processed materials are purchased, and production is increased only to find that the finished products cannot be sold and accumulate in inventory requiring the issuance of new credit, more loans, and more accumulation in inventory. Thus, making increased bank credit the principal method for solving current economic problems will not work. Facts have already demonstrated the validity of this point. Maintenance of loans to key enterprises results means that surrounding enterprises fall in arrears unequally as a result of the inequitable loans and failure to attain anticipated results. As a result, banks increase credit and enterprises increase the amount of goods they carry in inventory. Today, the amount of finished goods in inventory continues to increase, with most markets experiencing a slump, and some of them a depression. The market slump has become the main problem in the inability of the economy to operate normally.

### Several Reasons for the Slump

The market slump is a real problem, and the reasons for the accumulation of finished goods in inventory and the market slump are many. I analyze the main ones to be as follows:

First is the retrenchment policy and the policy of improving the economic environment and restructuring the economic order, which have caused a shrinking in the scale of capital construction and control over consumption funds. This has reduced demand for capital construction materials and for associated means of production and means of livelihood. The second component of the retrenchment policy is direct control over consumption funds, which has an adverse effect on current demand for commodities.

Second is a reduction in the number of commodity circulation links following the streamlining of corporations, which reduced artificial demand.

Third is the panic-buying that occurred during July and August 1988, which brought purchasing power into the marketplace prematurely. Of course, with the passage of time, this factor no longer plays a role, but one factor still does play a role, namely buying as one goes along. Rarely do people now buy things they do not need at once and keep them for a long time. The panic-buying of 1988 brought out purchasing power ahead of time, but today the reverse is true; when some purchasing power is delayed, a market psychology exists of buying when prices begin to go up and not buying when prices begin to go down. I believe one important reason is commodity price problems. During the dizzying price increases of 1988, the prices of some commodities rose very high, and they have never been adjusted downward. I feel that our price policy is only to raise prices but never to lower them. When supply does not meet demand, raising prices is very easy, but when goods are hard to sell, prices do not go down, no matter what. These reasons aside, I maintain that the market slump is an unavoidable consequence of the "double-tight" policy [tight monetary and fiscal policies] and of the early period of improving the economic environment and restructuring the economic order. It is a concomitant problem.

This is my estimate of the situation. So what is to be done about it? I offer the following suggestions: (Digression: During the seminar in November 1989, some said they hoped that the Central Committee would persevere in the retrenchment policy, and an expert at Hong Kong University published an article that maintained that the liberalization of credit would vitiate the improvement of the economic environment and rectification of the economic order.)

### No Abandonment of the Retrenchment Policy

First of all, the retrenchment policy cannot be abandoned. Although retrenchment has been effective, the inflation rate is on the way down, and prices are stabilizing, but inflation still exists and prices are still rising,

albeit somewhat more slowly. We cannot make the same mistake as in the past when the situation began to improve, suddenly turning the retrenchment policy into a liberalization policy. We have to guard against this problem. Given the present situation, we have to uphold the retrenchment policy, and we must especially continue to maintain it long enough to reach the ultimate desired goals. I feel that there are still ways to cure the market slump, but that solution to the commodity shortage problem is relatively difficult. The problem right now is to judge the situation correctly and to handle it properly. I believe that: 1) There can be no relaxation of the retrenchment policy to backtrack along the same old road; and 2) Neither can retrenchment be perceived as absolute retrenchment. Its dynamics must be adjusted. Recently, we increased credit somewhat and readjusted interest rates. This was done while holding fast to the retrenchment policy in order to alleviate some problems. Unless we make proper adjustments as we go along, thus failing to solve problems that must be solved, the decline in production will worsen, and it will become impossible to continue with the retrenchment policy. Therefore, careful watch must be kept on the proper dynamics. There has been a lot of discussion lately about the decline in interest rates. I do not believe that interest rates have declined. In terms of percentage of decline in inflation and the degree of rise in prices, interest rates have gone up. In 1989, the interest rate was approximately 13 percent; today it is approximately 11 percent. I believe that the readjustment of interest rates should be understood in terms of degree, by which I mean a readjustment of interest rates that is consistent with the decline in the extent of price rises.

#### **Possible Removal of Restrictions on Prices of High-Quality Commodities**

I believe, that given current circumstances, the market slump problem can be solved by continued moderate increases in bank credit, and that a moderate increase in investment in fixed assets is also needed to give a moderate boost to things that the country urgently needs and to put to use the capital construction materials that have accumulated in inventory. However, these two increases should be held within permissible limits, by all means bearing in mind past experience and not diving in headlong. Everyone has proposed many measures for solving the most important current market slump problem, which is opening up commodity flow channels, particularly the channels of flow between cities and the countryside. I believe that the prices of some commodities can be lowered slightly, with consideration given to removing restrictions on the prices of high-quality consumer goods. One example is Maotai spirits, the price of which has now fallen to 90 yuan with still no buyers. The price could be reduced in view of the market supply situation. Possibly prices could be relaxed on commodities that have very little effect on people's daily lives, but that have great effect on turnover as supplies warrant. The enlivening of the prices of several commodities may get the entire market going. This could not only

revitalize the current market, but also play a role in improving economic returns, lowering costs, and reforming prices. (Digression: This must be done in terms of complete across-the-board price reform.) The commodities for price reductions that I am talking about are household appliances like color television sets, and electric refrigerators, and things not necessary in the daily life of the people, such as Maotai spirits.

[23 Apr 90 p 3]

[Text] Statement by Zhan Wu, Secretary in Charge of Day-to-Day Business, National Economic System Reform Committee

Today I will talk about some ideas for linking the planned economy with market regulation.

The latest NPC [National People's Congress] meeting was very successful, and the atmosphere was very harmonious. The government work report is also a very good report. The latest NPC meeting was convened following the disturbances in Beijing during the summer of 1989, after marked achievements in improving the economic environment and restructuring the economic order and in the building of socialist material civilization, and after a beginning was made in overcoming some situations in which the left hand did not know what the right hand was doing. This provided favorable conditions for the success of the NPC meeting.

#### **Need for a Combination of the Two**

The work report gave an important position to the principle of correctly understanding and carrying out a fusion of the planned economy with market regulation as a key issue in the deepening and perfection of reform. (Not long ago, Premier Li Peng said in a speech to a system reform conference that making a breakthrough in combining the planned economy with market regulation is a primary task during the next 10 years in bringing the system into line. The report took account of realities and used a summarization of experiences in 10 years of reform as a foundation for enunciating five basic concepts as principles for combining the planned economy with market regulation. The five basic concepts mark a major step forward. They are of important significance as guidance. They can guide everyone in uniting theory with practice in studying how the planned economy and market regulation may be combined. There is no need to stop at abstract discussions about which is paramount or which form is best, and so forth. This report has made important advances on this issue.

Let me discuss some understandings I have as a result of several years of study of this issue and my recent survey and study in Shouguang County in Shandong Province.

1. The planned economy and market regulation must be combined.

In terms of the country's basically socialist system, if we do not consciously carry out a planned proportional



development of the national economy, but depart from the guidance of national plan in the planned commodity economy that our nation is building on the foundation of public ownership, we will depart from a socialist orientation and slide into the Western market economy path of blind development. Likewise, unless the planned economy is combined with effective market regulation, we will return to the excessively centralized and stifling plan-controlled system of the past in which the entire economy lacks vitality, and in which the smooth development of a commodity economy will be difficult. Moreover, as reform unfolds, including all the production operations of myriad households in plan will be difficult in the pluralist pattern of economic benefits already formed.

### The Two Can Be Combined

In planning and market relationship terms, planning and market regulation are regulating mechanisms that must be paired with each other in the operation of the socialist commodity economy. The plan reflects overall economic development requirements and society's total benefit. It plays a paramount role. Market regulation must accept guidance, regulation, and control from the state plan; the functioning of the market cannot depart from the objectives of the state plan. Otherwise, the market system and mechanism cannot be established and developed, nor can it play a normal and healthy role. Plan regulation also has to be in keeping with market price laws and the requirements of the law of supply and demand. Realization of plan goals must rely consciously on the functioning of the market. One might say that an organized market mechanism under plan guidance is a powerful means of realizing plan. Unless plan regulation is founded in market value and on the laws of supply and demand, the plan becomes "spongy." The plan will be divorced from reality, unscientific, and a pie in the sky.

2. A planned economy can be combined with market regulation.

In today's terms, this has ceased to be a purely theoretical issue after 10 years of reform, and has become a living reality. The reasons the two can be combined are as follows:

First, experience in 10 years of reform enables us to distinguish clearly the different natures of socialist and capitalist markets. Socialist markets are founded on a system of public ownership and absolute superiority; capitalist markets are founded on capitalist private ownership. Socialist markets are built through planning and organization, and they operate in a healthy manner under the regulation and control of state plan. This is a far cry from the spontaneous formation and blind development of capitalist markets. What we want are socialist markets; we are opposed to taking the Western market economy road. Socialist markets include country fare trade, markets for the sale of general merchandise, and markets for the sale of newly gained means of production, wholesale agricultural produce markets, goods and

materials markets, labor markets, technical markets, and so forth. There is nothing to fear in socialist markets.

Second, the socialist economic system in which public ownership is dominant enables the country to act as a social regulation center that proceeds from the overall interests of society, and that consciously understands and applies on a societywide scale the laws of value and of supply and demand in the regulation of economic activity to promote the planned, proportional development of the national economy.

If we resolve just the foregoing conceptual problems, we will be completely able to apply in a planned way the various economic, administrative, legal, and ideological means that the state has at its disposal in the building of a socialist market system and market mechanism, causing it to develop and become perfected gradually and to operate in a healthy fashion.

Third, no mutually antagonistic and exclusive relationship exists between a planned economy and market regulation. Quite the contrary. When the two are separated for the practice of an absolute and complete form of planned economy to the exclusion of market regulation, the economy will be done to death and revert to the old system. If a planned economy is ruled out and market regulation blindly practiced, economic turmoil ensues. Only by organically combining a planned economy with market regulation in a joint effort can the national economy's sustained, stable, and harmonious development be effectively promoted. This shows that the two must be combined and can be combined.

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### [Text] How To Combine the Two

The fusion of the planned economy with market regulation is a multifaceted interweaving of the planned economy with market regulation in which stereotyped methods may not be used. It has both general and particular features. The common features of the combination and the substance of the two in combination, I believe to be mainly three, as follows:

First, the planned economy has to be understood in a broad sense from the very beginning. Our socialist economy has to abide by the basic socialist economic laws of planned proportional development. This means that the socialist macroeconomy must have planned proportional development and be balanced. (Only secondarily is it planned in the sense of doing planning work.) Therefore, the fusion of a planned economy with market regulation is embodied, first of all, in the realization and maintenance of macroeconomic balance, that is, planned, proportional development to bring about and maintain balance between total social supply and demand. This is the only way in which the plan can truly possess authority, and the only way to enable the healthy development and normal operation of market regulation. Conversely, if macroeconomic balance is destroyed, if there is serious proportional imbalance and



sustained intense development of inflation, not only will there be no plan to speak of, but market mechanism and price information will be distorted and market order will be chaotic. Thus, realization of macroeconomic balance is the primary meaning of the combination of a plan economy with market regulation. Unless enterprises can compete equally, the national economy will be bound to operate abnormally.

Second, planning work for both command plans and guidance plans must employ consciously both the laws of market value and the laws of supply and demand. This is particularly true for guidance plans, which must be realized primarily through reliance on economic levers. Only in this way can plans become scientific and authoritative.

Third, as was said earlier, market regulation under the socialist system differs from capitalist markets. It is built in a planned and organized way by socialist countries, and it applies policies, plans, and economic levers to effect regulation and control, enabling the market mechanism to develop fairly rapidly, and to play a normal role.

As for the special features of the two in combination, as Comrade Jiang Zemin said in a speech during the 40th national anniversary, "The degree to which the planned economy and market regulation are combined, the methods employed, and the scope must be regularly adjusted and improved as actual circumstances warrant." The combination "should be based on the actual circumstances in different forms of ownership and different enterprise and different social production links and areas, in different industries and on the basis of differences in products, and should also be based on different times for regular required adjustment and perfection." This means suiting the combination to different conditions at different times.

A look at the county-level rural economy shows that the rural commodity economy accounts for a very large percentage of the national economy. Counties have very few guidance plans. Commodities purchased through the national single-track system total approximately 40 percent of the total; commodities exchanged through markets account for 60 percent.

My experiences in Shouguang County show that under these circumstances, the role of market regulation under plan guidance must be used to the maximum extent. This is crucial to the prosperity of the rural economy. The markets there are organized with numerous service networks. Control is exerted through service, and service is provided through control. Commodity production and market circulation are the two flanks of a commodity economy. They are the key to the development of agriculture, and they exhibit a role in both the building and perfection of markets, promoting production, making the economy flourish, and making the masses prosper. If the peasants alone develop production without tending to the building of markets, products

cannot become commodities and production will ultimately be unable to develop. This experience particularly deserves the close attention of comrades in charge of rural work.

### Managing the Combining of the Two

In the development of a socialist planned commodity economy, cadres at all levels must genuinely deal with the problems in combining the planned economy with market regulation. This requires a high order to leadership skill, and it is also an essential skill that must be mastered. How the economy of any given place or sector develops will be decided to a very large extent by the degree to which this skill is mastered. Experiences in Shouguang County show this to be the case. I believe that most people's understanding today about the problem of combining a planned economy with market regulation stops at theoretical discussion, and that how to combine theory with practice is a major current problem.

[25 Apr 90 p 4]

[Text] Statement by Chen Jiyan, Director, Chinese Academy of Social Sciences, Rural Development Research Institute

"Steady development of agriculture is the foundation for political, economic, and social stability. Government at all levels must place agriculture first in economic work to mobilize the whole country from top to bottom, and each trade and profession must support agriculture in a concerted effort to move agriculture forward." As a student of rural development theory, I was deeply inspired when I read these words in the "Government Work Report."

How to realize steady development of the country's agriculture is a major topic. Here I would like to sketch my personal views in several regards.

### Clear Understanding of the Current Situation in Agriculture

1. A scientific analysis and understanding of the present situation in agriculture and a correct judgment of the agricultural situation have a direct bearing on the success or failure of policies and measures adopted. The failure of agriculture to move ahead during the past several years is closely related to the blind optimism about agriculture and the unrealistic estimates made in 1984, which led to mistakes in work. Therefore, steady future development of agriculture very much requires an analysis of its present condition.

The country is facing a fine orientation of development by improving the economic environment and restructuring the economic order, and in deepening reform, and the same is true of the situation in agriculture. In 1989, the gross output value of China's agriculture reached 655 billion yuan. Figured at comparable prices, this was a 3.3-percent increase over 1988. After four consecutive years with no progress, grain production in 1989 reached

407.45 million tons, an all-time high. This was a heartening achievement earned through the efforts of the broad masses of peasants and the support of everyone in the country from top to bottom.

However, this record grain output requires calm and comprehensive analysis to produce a realistic estimate. First, two-fifths of the 1989 increase in grain output was obtained from an expansion of the area sown. Although grain output increased 3.4 percent over 1988, cotton output declined 8.7 percent; oil-bearing crop output declined 2.3 percent; sugarcane output declined 1 percent; and sugar beet output declined 27 percent. This means that the increase in grain output was paid for with a reduction in the outputs of the major cash crops, namely cotton, oil-bearing crops, and sugar-bearing crops. Second, 1989 grain output was only 140,000 tons more than in 1984, but China's population increased by a net 73.15 million people between 1984 and 1989. Thus, the amount of grain per capita today is 51 shijin less than in 1984. The critical situation between grain supply and demand has not eased. Although it is difficult to sell grain in some parts of the country today, this is only a temporary situation that has occurred in some places. In overall and long-range terms, the country's grain situation remains grim.

For the past several decades, our attitude toward agriculture has gone through a cyclical process of neglect - increased attention - more neglect - more increased attention. Usually, agriculture is neglected when the agricultural situation is good, and only when there is a shortage of agricultural products is more attention again given to agriculture. The many lessons in this regard remain fresh in our memory. Therefore, we should particularly value the turn for the better in agriculture that the present record grain output brings, and we should adopt genuinely effective measures in all regards to end as quickly as possible, and once and for all, the faltering of agriculture and to spur the sustained and steady forward development of agriculture.

### **Continue To Deepen Rural Reform**

#### **2. Maintain the steadiness and continuity of basic rural economic policies.**

The rural reforms and the various basic economic policies implemented during the past seven or eight years have enjoyed the heartfelt support of the broad masses of peasants. What the peasants fear is that these policies may change. One heartening thing is the solemn declaration in the present "Government Work Report" that "it is necessary to maintain the steadiness and continuity of basic rural policies and to continue to deepen rural reform." This policy enjoys strong peasant support, and it is bound to play a tremendous role in arousing to the full the enthusiasm of the broad masses of the peasants for production. In my view, we must now pay special attention to maintaining the steadiness and the continuity of several major policies.

a) It is necessary to uphold and perfect the family output-related contract responsibility system. While continuing to uphold peasant families as basic operating units in agricultural production, attention must be given to the establishment and perfection of a social service system for production before, during, and after production, for science and technology, and for supply and marketing so as to be able to make the most of the advantages that the collective economy provides, and to link this properly to the arousal of the enthusiasm for production of individual peasants. It must be noted that this social service system differs fundamentally from the cooperation in production of the past in that there is no unified planning for peasant household production, no organization of labor in common, and no distribution on the basis of workpoints. Most important is that cooperation in agricultural production services and in nonagricultural enterprises is cooperation in the common use of large-scale facilities, cooperation in the development of agricultural resources, and cooperation in social public welfare endeavors.

b) It is necessary to uphold a policy of coexistence of different forms of ownership in which public ownership is paramount. This policy is suited to the extreme imbalance in the development of the country's productivity. It helps solve the country's ever-increasing employment requirements, and it better satisfies the countless differing needs of the teeming populace. It goes without saying that in permitting the simultaneous existence and development of an individual economy and a privately owned economy, it is necessary to pay attention to the inequities in social distribution, the resort to deception, and the tax cheating and tax evasion of recent years to guide the healthy development of the individual economy and the privately owned economy.

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[Text] c) It is necessary to give active yet careful continued promotion of agricultural products price reform. The State Council has decided that state contract procurement prices of cotton, oil-bearing crops, and sugar-bearing crops are to be increased in 1990 by way of coordinating comparative economic benefit relationships in rural villages, and in order to spur increased production of cotton, oil, and sugar. The use of price readjustments to spur increases in agricultural production has always been significant. Actually, the substantial increase in grain output during 1989 was due not merely to an expansion of the area sown; another important reason was a rise in state grain procurement prices and market prices. However, long-range, across-the-board thought must be given to agricultural products price reform. A piecemeal approach will not do for the reason that it will make a better balance among comparative price relationships very difficult. Grain output increased when grain prices were increased in 1989, but the changes in comparative benefits adversely affected peasant interest in producing cotton, oil-bearing crops, and sugar-bearing crops. This year's increase in the prices of cotton, oil-bearing crops, and sugar-bearing

crops will help increase output of cotton, oil, and sugar, but one cannot help but think that this measure may adversely affect grain output.

#### **Continue To Foster Township and Town Enterprises**

d) Continue active support and rational guidance to the development of township and town enterprises. Township and town enterprises have become a major integral part of the country's national economy. In 1988, the gross output value of township and town enterprises already amounted to 24 percent of the entire country's gross social output value, and the output value of township and town industries accounted for 27.6 percent of the whole country's gross industrial output value for that year. Township and town enterprises play an ever-more important role in providing society with products and services to satisfy needs. In addition, in providing employment and supporting the building of agriculture, township and town enterprises also gain fine benefits for society. The birth and development of township and town enterprises in China is deeply rooted in the country's history and national circumstances. The policy of developing township and town enterprises is no expedient device, but should be an enduring national policy. In order for township and town enterprises to develop more healthily in the future, the problems in recent years of too rapid development of township and town enterprises, as well as the low structural level of township and town enterprises relative to large industries should be properly solved through a policy of "readjustment, restructuring, reform, and improvement."

#### **Difficulty Spreading Scientific and Technical Achievements**

##### **3. Introduce Science and Technology Into Rural Villages**

The use of science and technology in the building of agriculture was both a necessary choice in the development of the country's agriculture to its present stage and a major strategic measure that will need to be employed for a long time to come. The per capita amount of cultivated land in China is less than 1.5 mu (1/10 hectare), which places China third from the bottom among the countries of the world that have a population of more than 50 million. During the past 10 years, the population has increased an average 15 million annually, and the amount of cultivated land has decreased by an average 5.5 million mu annually. The rapid population increase and the steady decrease in cultivated land have increasingly sharpened the contradiction between limited cultivated land and the need to increase grain output. Plainly, a backward material and technical foundation as well as traditional labor methods and production methods cannot fundamentally solve the food needs of a population of 1 billion. It is necessary to rely on the power of science and technology to move toward the entrance to a comfortably well-off life.

As a result of the development and spread of 302 agricultural technologies from 1985 through 1987, output of agricultural products including grain, cotton,

oil, and meat increased 11.903 billion kilograms, and output value increased 7.804 billion yuan. In 1988, the spread of agricultural science and technology using the "bumper harvest plan" as a "turnkey" spurred a 2.85 billion-kilogram increase in grain output within a year, and a 64.95 million-kilogram increase in ginned cotton output, the input-output ratio reaching 1 to 7.5 for very high economic returns.

The main problem confronted in the use of science and technology to build agriculture is the difficulty in spreading achievements in agricultural science and technology over wide areas. During the past 10 years, there have been 25,000 confirmed agricultural science and technology achievements at the provincial level and above. Another substantial number of scientific and technical achievements related to agriculture have been made, but today the application rate for agricultural science and technology achievements is only 30 to 40 percent. They still do not gain the economic and social benefits that they should.

#### **Peasant Quality Becomes an Obstacle**

There is a shortage of agricultural science and technology personnel today. There is only one technical person per 7,000 mu of cultivated land in China, and for every 7,000 head of livestock animals, there is only one veterinarian. Because of the lack of funds, the limited numbers of technical personnel are frequently in a situation like that of a country that "has money to support troops, but no money to wage war." In Henan Province, a township agricultural technology station had to move six times because it did not have its own building. They laughed at themselves, saying that "the agricultural technology station has become a 'guerrilla station.'" Numerous agricultural technology promotion units lack essential instruments and equipment as well as experimental bases. Not one of the 67 township agricultural technology promotion stations in Puyang City, Henan Province, has a set of basic tools such as a calculator, a steel tape measure, a magnifying glass, and a scale for weighing. In addition, the pay and benefits of agricultural technology promotion personnel is pitifully low. They go from door to door in rural villages passing out technical information to the peasants, thereby permitting quite a few peasants to take the road to riches, but after decades of braving the wind and the rain, they themselves still do not have so much as a technical title; consequently, the rural villages that need scientific and technical personnel the most are the ones least able to keep them.

It should also be pointed out that that the quality of the country's peasants has also become an obstacle to the use of science and technology to build agriculture. China has 200 million illiterates today, an overwhelming majority of them in rural villages. Numerous children of school age, particularly girls, are unable to go to school. Because of the rural illiteracy and semi-illiteracy, there is greater scientific illiteracy.

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[Text] The vigorous development of agriculture urgently requires that we adopt genuinely effective measures to solve the foregoing problem, so that the resounding slogan about using science and technology to build agriculture gradually becomes a reality.

#### **Increase in Investment in Agriculture Through Many Channels**

4. Attempting to increase investment in agriculture and wanting to develop agriculture without the necessary materials and money is impossible. Estimates based on many years of experience of units concerned in the country show that for every 50 million-ton increase in grain output capacity, the material investment required is 15 million tons of chemical fertilizer, 5,000 horsepower of farm machinery, 10 billion kWh of electricity, and 1.3 million tons of diesel fuel. Generally speaking, for each one percent increase in money investment, grain output can be increased 0.41 percent. In other words, if grain output is to be increased 1 percent, the amount of money invested will have to be increased 2.4 percent. The decrease in investment during recent years has led to a decline in overall agricultural production capacity. Today, the overall production capacity of China's agriculture is able to ensure an output of roughly only 400 million tons of grain and 4 million tons of cotton.

Investment in agriculture today is still done through multiple channels, including the state, collectives, and individuals.

State investment in the development of agriculture has always had an extremely important position. The harnessing of large rivers, the construction of large commodity bases, the transformation of large areas of low-yield fields, the building of large industries producing materials for agriculture such as agricultural pesticides, and the development and promotion of key scientific research projects are all things that the peasants as individuals do not have the power to do and that require state financial support. Today the country has begun to pay attention to increasing investment in agriculture. In 1990, the central government plans to increase investment in the capital construction of agriculture by 1 billion yuan in a nearly threefold increase over 1989. In addition, the central government also asks that provinces, prefectures, municipalities, and counties give priority to the use of local financial resources for the development of agricultural production. Formerly, state investment in agriculture was erratic to a very great extent. By way of solving this problem, not only is there to be a deepened understanding of the strategy for development of agriculture as the foundation of the national economy, but it also seems that a firm grip must be taken on agricultural investment legislation to bring government investment in agriculture within the purview of the legal system in order to correct government's overinvestment in industry.

#### **Decline in Rural Investment Capacity**

Formerly, collective economic organizations were the main investors in agriculture, but collective withholdings diminished and investment capacity declined following institution of the family output-related contract system. Rural collective withholdings as a percentage of new income was 16.7 percent in 1978, but in 1988 it was only 10.2 percent. Despite the increase in investment by rural collectives from the 11 billion yuan of 1988 to 45.7 billion yuan in 1988—a 4.1-fold increase—most of the withholdings were invested in nonagricultural industries. The percentage used in agriculture declined from 30.1 in 1983 to 9.4 in 1988. A future increase in collective investment in agriculture will require a gradual strengthening of the collective economy, and it will also require a deepening of rural reform, and a readjustment of relative return relationships, economically guiding a tilt of collective investment toward agriculture.

The peasants themselves are the main investors in agriculture at the present stage. Because of the decline in relative returns from farming in recent years, particularly from growing grain, as well as the effect of backward traditional customs, peasant interest in investing in agriculture is not high. They use a very large portion of their income on consumption, even foolish consumption. Between 1978 and 1988, peasant net income increased 3.1-fold, while during this same period investment in the building of houses increased approximately 20-fold. Peasant expenditures for weddings and funerals also increased alarmingly. Expenditures for the worship of Buddha are also increasing rapidly. If peasant investment in agriculture is to increase, basically it will be necessary to form gradually a macroclimate conducive to peasant investment in agriculture, using reform in a series of economic mechanisms such as prices and taxes to make peasants truly feel the economic advantages of farming, particularly of growing grain. In addition, more must be done in rural villages to build spiritual civilization for the gradual elimination of old traditions and customs so as to accumulate more capital for use in production.

#### **Steady Rural Development in Prospect**

To summarize the foregoing, if only we make a scientifically correct judgment about the agricultural situation and use this judgment as a basis for maintaining continuity and steadiness in basic rural economic policies, relying on science and technology to develop agriculture, and gradually increasing investment in agriculture, we will certainly be able to realize the steady development of agriculture.

[28 Apr 90 p 3]

[Text] Statement by Yang Peixin [2799 1014 2450], State Council Development Research Center Research Fellow

Very great changes have taken place in the development of the national economy following more than a year of

improving the economic environment, restructuring the economic order, and deepening reform. The momentum of inflation has been reversed and prices have gradually stabilized, but at the same time, a market slump has appeared that has resulted in plant closings and the unemployment of workers. These are unavoidable events in the process of changing inflation to deflation.

#### Less Inflation Now

Is there more or less currency in circulation today? I believe there is less today. In 1986, 121.8 billion yuan was in circulation, but in 1989 234.4 billion yuan was in circulation, a total increase of 112.6 billion yuan. However, in 1987 retail prices increased 8.8 percent; in 1988, they increased 18.5 percent; and in 1989 they increased 17.8 percent, for a cumulative 52-percent rise in three years. In 1989, 1 yuan was worth only 0.65 1986 yuan. In these terms, the amount of currency in circulation in 1989 was equal to only 152.3 billion 1986 yuan. In other words, inflation ate up 82.1 billion yuan in currency. However, gross national product in 1989 was 1.5907 trillion yuan versus the 972.6 billion yuan of 1986 for a 63.5-percent increase. To be consistent with the development of the economy, the amount of currency in circulation should increase correspondingly to 199.14 billion yuan, yet, during the period January through March 1990, another 18.08 billion yuan was removed from circulation. The amount of currency actually in circulation today is only 71 percent of the amount that should be in circulation, a 29-percent contraction of the money supply.

#### Need To Limit Deflation

Experience shows the need to limit deflation. In March 1950 unified financial and economic efforts brought inflation to a halt. During that month, the amount of money in circulation was cut by a third. During 1962 and 1963, the amount of currency in circulation was also cut one-third. At these times, the rise in prices halted, markets became depressed, and the momentum of currency inflation was stopped. During the March 1950 halting of inflation, one-third of the currency was removed from circulation, and in May a readjustment of industry and commerce began, with the goal of rapidly enlivening markets to bring to a timely end the economic recession evidenced by market depression, closed shops, and worker unemployment.

When one-third of the currency was removed from circulation during the 1960's, further tightening of the money supply was halted, and investment began to be revived gradually. We have already cut the amount of currency in circulation by 29 percent, or nearly a third. Thus, a large amount of currency has been consumed by consecutive years of price inflation. Today, inflation has turned into deflation. The remaining 234.4 billion yuan of purchasing power is indispensable to the circulation of commodities in the market. It should not be regarded as surplus purchasing power, nor should the conclusion be reached on this basis that demand is greater than supply.

It is because of deflation that the market slump began in August 1989, that industrial production slipped, that 20 percent of production came to a halt, and that unemployment reached 4.3 percent.

[29 Apr 90 pp 1, 2]

[Text] Academics disagree as to whether current social demand remains greater than social supply. Some people include as part of surplus purchasing power the more than 200 million yuan of currency in circulation, and the more than 500 million yuan in savings accounts, all of which they figure as social purchasing power. At this rate, social demand remains much greater than social supply. I believe that when people deposit their money in banks and do not use it to buy things, this is a withdrawal of purchasing power from the market and it is not real demand. It should not be figured into social demand. Western countries do not regard savings as real purchasing power. They do not figure them into current-year demand or into purchasing. As a result of the vigorous curtailment of social demand during the past year, a situation of insufficient consumption demand and investment demand has occurred.

#### Tightening of Money Supply Has Served Its Purpose

Some people suppose that the large amount of savings has caused the market slump, but savings of somewhat more than 514.6 billion yuan in China are equal to only 32.35 percent of its gross national product of 1.5907 trillion yuan. In Japan, savings of 37.5 trillion yen are 1.74 times Japan's gross national product. In Belgium and Switzerland, savings run between 1.5 and two times gross national product. Savings deposits may increase in China, but this certainly should not be taken as a basis for concluding that social demand is perpetually greater than social supply. It is on the basis of the above two points that I believe that actual demand is not the fault of either consumption or investment. Some people say that total demand has been greater than total supply for a long time, but I feel that a long period of time can be divided into several small periods in each of which the situation differs. One cannot look at problems in an unchanging light; thus, it should be recognized that current consumption demand is insufficient.

Some people say that the reason for insufficient consumption demand is that savings have soaked up currency. Thus, interest rates should be lowered to force the populace to buy things. I believe this would be a waste. A survey of popular sentiment conducted in Guangzhou showed that 70 percent of people have been affected by plant closings and worker unemployment. They feel there is danger that the economy may go down and that their cash income may decline, so they want to have some savings. Under these circumstances, they will save even if interest rates drop. Although wages rise when prices rise, the rise in wages is very limited. Under this circumstance, there can be no large-scale consumption. Consumption psychology today is different from it used to be. It is estimated that the lowest limit of investment

demand was in 1989 when investment volume declined approximately 20 percent, with heavy industry suffering most. Thus, it should be acknowledged that investment demand is insufficient.

I believe that improving the economic environment and restructuring the economic order is now entering the second stage during which the emphasis should be on enlivening markets and invigorating investment to make the economy move ahead rather than on further tightening the money supply. I believe that tightening the money supply has served its purpose. The focus has to change, and rural villages should be the focus in invigorating consumption demand. In Gansu Province, the peasants are unable to sell their grain, wool, and live hogs. In Xinjiang and Inner Mongolia, wool is piling up with no buyers. Baichengzi in Jilin Province has no money to purchase corn and sunflower seeds, which are piled on the ground. Herdsmen are slaughtering their sheep and eating them because the price of mutton has fallen from 5 yuan to 2.50 yuan per jin. In south China it is impossible to sell fruit, and in Chongqing everyone is asked to eat "patriotic oranges," each person to consume 40 jin, for which the price is 0.5 yuan per jin. In Shandong, Fujian, and Zhejiang Provinces, a bumper harvest of aquatic products has become a drag on the market.

#### **Peasants Have Money But Cannot Buy Commodities**

When the state purchases products from the peasants, the peasants have purchasing power, but today a situation exists in which the peasants have money but are unable to buy things. Rural supply and marketing cooperatives have no commodities to sell. This is because bank interest rates are too high. This results from our having mechanically copied the experiences of the West. We suppose that that raising interest rates on credit and savings is the only way to cure inflation. But China's situation differs fundamentally from that of the West because enterprises' sale prices in China are strictly controlled by the state. Prices cannot be raised at will. Very many enterprises derive no benefit at all from price increases. In the clamor to raise the prices of raw and processed materials and of electricity, any further increase in loan interest rates is to pile one disaster on top of another for enterprises. Prices of raw and processed materials at Automobile Plant No. 2 have approximately doubled, but only an 80-percent increase in the sales price of motor vehicles is allowed, and the plant has to pay the state 70 percent of its profits each year. This is a staggering burden, so how can loan interest rates be raised for such enterprises?

Bank interest is too high today. Banks should be units that serve the economy that should make a small profit on volume transactions and serve society. High bank interest rates are very bad for readjustment. The banks insist that, because interest rates on savings are high, interest rates on loans must be correspondingly high. However, the interest that banks pay on the savings of social groups and enterprises is very low or virtually

nonexistent. Banks also profit from the annual issuance of more than 20 billion yuan in new currency, so they should not charge high-interest loans for profit, nor should they make the lowering of savings interest rates a condition for lowering loan interest rates. I believe that for the past several years China has lived off savings because we have been unable to issue banknotes or make foreign loans. In 1990, savings will very possibly reach 200 billion yuan. This is an important pillar in our economy. How can we blithely "destroy our Great Wall?" Thus, banks should have a long-range view—a strategic view.

Therefore, I feel that rural consumption demand has to be spurred, and that most important is the issue of produce purchase price. The peasants have things on hand, but they are tied down by the banks' credit plans. These credit plans were copied indiscriminately from the USSR, and they do not fit China's present circumstances. (Ji Chongwei [1323 1504 1218] interjected the following: "The banks credit plans should fit in with the removal of currency from circulation.") By maintaining a proper amount of market currency circulation, commodity circulation would be more lively.

#### **Need To Gain People's Confidence About Protecting the Value of Savings**

I believe that the calculations about protecting savings should be published. All tabulations should be validated by social groups such as workers, youths, and women. Today, guaranteeing the value of savings is the only way to absorb idle capital in society; therefore, the confidence of the public must be gained. Still another issue is investment. I believe that investment during 1990 should be greater than in 1989 by 30-40 billion yuan. Because the volume of investment during 1989 depressed heavy industry, unless it [investment] is increased, heavy industrial enterprises will be unable to survive. The output value of heavy industry accounts for half of all industrial output value, so if heavy industry does not survive, industry itself will be paralyzed.

Where should restrictions on investment demand be loosened? By increasing government financial disbursements? The fiscal deficit stands at 9 billion yuan, and the country is entering the peak period of debt repayment. Certain capital construction projects that the state approved during 1989 have not yet been funded, nor can the banks resort to the issuance of currency again to issue loans for technical transformation or capital construction.

I believe that restrictions should be removed on the entry of capital from outside plan for key construction. For example, the construction of new railroads to crisscross nine provinces should be financed through the pooling of funds by all jurisdictions that the railroads cross, and that civilian labor should be mobilized, receiving payment half in wages and half in bonds, the workers benefiting from "gold rolling in once the trains roll." Ministry of Railways funds can be used together with

local funds, and once the project gets under way, no state financial disbursements will be required. The project will be self-financing. The building of the railroads will be able to solve major problems in Guangdong Province. Funds from Overseas Chinese, from Taiwan, and from Hong Kong and Macao should be welcome. Recently the Capital Iron and Steel Complex proposed development of the Qilu Iron and Steel Company, this project to be built jointly by the Capital Iron and Steel Complex, Shandong Province, and Shenzhen City. Zhejiang and Jilin Provinces are preparing to put up funds. Such a project cannot be funded by the government, but since it is to be paid for out of unbudgeted funds, it will not contribute to inflation; yet, once in operation for two years, it will be able to provide 3 million tons of steel products. I believe such a project should be given priority. I suggest that the State Statistical Bureau treat equally and without discrimination both the projects it has itself organized and projects it has asked local enterprises to organize. So long as key construction projects are consistent with economic reform policy, no distinctions should be made among those belonging to the central government, the local government, or an enterprise. When money is available, they should get under way. This is a part of investment reform; therefore, enlivening the economy requires enlivening investment and enlivening reform of the investment system.

[30 Apr p 4]

[Text] Statement by Zhang Zhuoyuan, Director, Chinese Academy of Social Sciences, Rural Development Research Institute

#### Benign Cycle Not Easily Achieved

I believe that improvement of the economic environment and restructuring of the economic order has come to a crossroads. First of all, I completely agree with Zhao Haikuan's view that restructuring of the economic environment and rectification of the economic order have accomplished very much. This is obvious to all. At the same time, however, the problems are very serious. I feel we are not yet out of the woods.

On the basis of international experience, when deflationary policies are adopted once an economy has overheated, zero growth and negative growth are normal, but in China's circumstances, this is almost unbearable. Without a certain speed of industrial development, the contradictions in every regard are truly difficult to handle. If we were to move into a benign cycle as is customary in retrenchment, then we should clench our teeth, rectify and improve the economic structure, and bring economic relations into balance. But I feel that this is only a fond hope that cannot continue to be pursued in China. Possibly we can take a middle road, meaning to make advances in improving and readjusting the economic structure and some achievements in putting the economy into a benign cycle. I do not believe that China can very easily attain the goal of putting the economy

into a benign cycle through retrenchment, but everyone is opposed to taking the old road of inflation - retrenchment - inflation.

#### No Taking the Polish or Vietnamese Roads

A recent World Bank report on the development of China's economy gave rather high marks to our 10 years of reform. I agree with one of their views, namely that now is the best time for price reforms. The time to free prices has arrived. Some commodity markets are in a slump, a good harvest has been reaped in agriculture, industry has grown a certain amount, and all supply and demand conflicts have eased. This provides the conditions for price reforms. The report proposed an acceleration of price reforms now to bring distorted prices into balance as being very advantageous in supporting the economic structure and readjusting the industrial structure. (Zhao Haikuan interjected, "We should readjust the product mix now, and we should do it on the basis of the market supply and demand situation for it to be scientific and accurate.") The report hopes that we will take the Polish or Vietnamese road, freeing prices of virtually all products within one or two years. Poland has already scored successes, its inflation rate is declining, prices are rising, the variety of commodities is increasing, and quality is rising. This is also true of Vietnam. (Digression: The ones who fear price rises most in China are workers and teachers; ways must be found to ensure no decrease in their earnings). Numerous foreign economists recommend the Polish and Vietnamese models to us, particularly the Vietnamese model. Nevertheless, I believe that if China's economy is to be stable, the methods used in Poland or Vietnam cannot be adopted; a middle-of-the-road course would be better, using the opportunity provided by improving the economic environment and restructuring the economic order to take the road of readjustment and freeing of prices in combination. With a little more courage, we might free prices a little faster. When I presented my views to the World Bank, I said that prices in China rose 18.5 percent in 1988, and so long as they did not exceed this level, a lot could be done to reform prices. Provided our wage and social insurance systems keep pace, more price readjustments and freeing of prices can be done within the 18.5-percent limit. If the current level in Guangdong, particularly in Shenzhen, is reached, I believe that is as far as the freeing of prices can go. This is because, as envisioned, the so-called freeing of prices means freeing them by 70-80 percent, with 20-30 percent under direct state control. I suggest that if inflation can be held within 18.5 percent, hastening price reform is entirely possible, including freeing the prices of some consumer goods. If price relationships can be preliminarily or basically brought into balance within five or eight years, that would be very advantageous for the readjustment of the country's entire economic structure. This is because today the role of market signals has increased, and the role of market guidance has increased.



**Prices Must Not Fall Too Fast**

The "double-track system" of prices has very many flaws, but old practices die hard, and it would be very difficult to merge it with a one-track system. This involves departmental authority issues. I believe that the opportunity that the definite achievements made in improving the economic environment and restructuring the economic order provide should be used to reach the development goals of improving the economic structure, improving agriculture and basic industries, and improving beneficial enterprises, and that price reform should be accelerated. This price reform is not just to adjust prices, but also includes freeing prices. I believe the demand for a fall in prices should not be too high. So long as the wage and social welfare system can keep pace, a certain rise in the overall price level to hasten the planned readjustment of prices and the freeing of prices will actually accelerate reform of the entire economy. This will be advantageous to readjustment and reform of the economy and the industrial structure, enabling the entire economy to move into a benign cycle.

[2 May 90 pp 1, 2]

[Text] Statement by Ji Chungwei, Secretary in Charge of Day-to-Day Business, State Council Developmental Research Center

The government work report is a document that has been discussed and revised by several thousand people in the central and local governments; it is a crystallization of the collective wisdom of the whole party and the whole people whose orientation is correct, and whose measures are beneficial. However, understanding of some problems should continue to be steadily improved because the economic situation is very complex and must be looked at with a developmental view.

The policies of improving the economic environment and restructuring the economic order, and deepening reform truly achieved very great successes, and marked achievements were also made in 10 years of changing ossified plan control to bring the role of the market mechanism into play. The period of improving the economic environment and restructuring the economic order required appropriate centralization to improve coordination and overcome certain tumultuous situations, but there was positively no falling back. Reform has to be deepened and opening to the outside world has to be expanded, the better to develop; therefore, improving the economic environment and restructuring the economic order, deepening of reform, expansion of the opening to the outside world, and promoting the sustained, steady, and integrated development of the economy must be organically combined; they cannot be done separately.

One glaring problem today is the market slump; however, the production of some things in seriously short supply such as electricity, coal, and petroleum, as well as important raw and processed materials, continues to

increase. The cutbacks are mostly in processing industries, in ordinary means of production, and in consumer goods, showing that the industrial structure has been considerably readjusted. The major cutbacks in processing industries, which expanded blindly beyond normal requirements, is not a bad thing. Most enterprises that have halted or cut back production were those not performing very well. Halts or reductions in production have been fairly widespread in township and town enterprise, but that is economic natural selection rather than the result of government policy and administrative measures. Good township and town enterprises possessed of vitality continue to develop.

The major conflicts during the past several years have been between too great demand and inadequate supply. Following retrenchment, the inadequate purchasing power demand that appeared led to a market slump in which production stagnated. Thus, this situation is attributable mainly to the supply of ordinary means of production and consumer goods being greater than purchasing power demand. The oversupply of means of production is particularly marked. After allowing for price factors, the amount of investment in capital construction has declined steadily during the past two years. For example, investment in fixed assets declined 28.4 percent in 1990 as compared with the previous year, yet output of the means of production increased—gross value of industrial output increased 8.8 percent in 1989. Consequently, very many construction enterprises stopped work, and the market for capital construction materials slumped. The main reason for the slump in consumer goods markets was that production outpaced consumption during the past several years. The people bought the goods they needed, interest rates went up, people's anticipation of price rises disappeared, and seeing that some factories had halted or cut production and that their income had declined, some staff members and workers curtailed spending and prepared for several years of belt-tightening. So, desire to purchase generally declined. Thus, the psychology of "keep a lot of things but don't keep a lot of money" changed to "keep a few things and keep a lot of money," leading to the market slump. The main reason for this was that during the past 10 years our production capacity expanded several times over, thereby overstimulating consumption earlier than anticipated. Now a situation of cutbacks in purchasing power demand, and demand desire has come into being, with the result that the increase in processing capacity and products that occurred during the past several years of economic overheating are in relative oversupply. Nevertheless, in long-range terms, there is a shortage of supply throughout the country.

This includes shortages in many areas. The first is the need to increase investment to spur production. The second is the need to properly stimulate of people's desire to consume, particularly the opening of channels for rural consumption for the development of rural markets. Third is the need to increase exports. I feel that some government departments and economists in this



country have not paid sufficient attention to policies and actions to promote ultimate demand through the opening to the outside world. A very large export market still exists, and there is a plentiful supply of goods, but foreign trade enterprises lack working capital. Many commodities for which there are foreign markets and that are readily available in China cannot be purchased for export because of the shortage of funds. Foreign trade enterprises are in arrears in their payments to factories for goods, and foreign exchange earnings from exports that the trading enterprises retain have not been apportioned. It is roughly estimated that several billion dollars of unapportioned foreign exchange is in the hands of foreign trade enterprises. Therefore, the country should pay out renminbi to buy back this foreign exchange or fully provide foreign trade enterprises with the working capital they need, thereby both increasing exports and expanding ultimate demand in foreign markets for an invigoration of domestic production. I believe that good performance in the above three regards would stimulate an increase in market demand, but this increase should be maintained at a proper rate. It should not be overdone to the point where a situation recurs in which demand is greater than supply. I recommend that the government take two actions with regard to finances. First, establish loans for a readjustment of the product mix, providing small short-term loans to enterprises that readjust their product mix in order to increase effective social supply, which would benefit readjustment of the product mix. Second, I hope that the country will establish a foreign exchange equilibrium fund, so that the state can buy back foreign exchange when supply is greater than demand in the foreign exchange regulation market, and to sell foreign exchange to foreign trade enterprises when the supply of foreign exchange does not meet demand to promote the flow of funds in foreign trade. The People's Bank requires planning targets for funds to be used for goods orders for foreign trade, but the targets should be somewhat elastic, funds supplied on the basis of foreign trade enterprises' actual needs instead of being restricted too severely and too rigidly.

Third, today we have approximately 10,000 joint-venture enterprises for which agreements have been signed and construction is under way. Some of them have ground to a halt because the Chinese partner has been unable to come up with the needed funds. Priority should be given to supplying funds to these enterprises to enable them to complete construction and go into production as rapidly as possible to increase effective supply. Investment of funds to meet the aforementioned three needs should be liberalized to increase effective supply and increase foreign exchange reserves. This would not cause inflation. The risk is relatively small, and markets would be invigorated. In addition, interest on savings accounts should be lowered somewhat to encourage people to spend a little more. Arrears payments among enterprises should be settled to revive creditworthiness. With these measures, the economic situation can gradually take a turn for the better and become vigorous. I believe that the economic situation

during the second quarter will continue fairly difficult, but that it will improve during the last half of the year. But even after it improves, we will still have to be realistic and not blindly and artificially pursue high-speed production and increase in output value once again.

Furthermore, firm hold must be taken to advance a readjustment of the mix of industries and products. Reliance should not be placed on administrative methods alone. Price policies and economic methods should also be used to bring about this readjustment.

In the deepening of reform, price reform is of greatest importance, and price reform requires a mix of both readjustment and removal of restrictions. Some irrational prices will have to be readjusted, the market mechanism used to free some prices. In a country as large as China, the sudden removal of all price restrictions would cause chaos. Price controls have to be removed gradually. A medium-range price reform plan should be drawn up now that distinguishes priorities to carry out readjustments step by step and phase by phase. This plan should prepare everyone psychologically and take into consideration the tolerance of all quarters. Price reform requires both courage and care, gradually bringing equilibrium among irrational price relationships while guarding against the occurrence of major problems. This is the way to make allocation of the country's resources more rational and economic returns better so that the economy can slowly get out of its predicament.

[3 May 90 pp 2, 3]

[Text] Statement by Professor Luo Yuanzheng [5012 0337 6927]

I would like to talk about three matters. The first is the oneness of China's reform and opening to the outside world, and the current improvement of the economic environment and rectification of the economic order. During the past year, tremendous world-arresting achievements have been made in reform and opening to the outside world that have been heartily welcomed by the Chinese people, and that have been generally acclaimed by foreign friends. However, when China encountered economic difficulties and a deflationary policy of restructuring the economic environment and rectifying the economic order was instituted at the end of 1988, which went on to produce a market slump and the closing or partial closing of a small number of factories, and so on, some people—particularly some foreign friends, as well as some scholars who do not very well understand the Chinese situation—experienced puzzlement and misunderstanding. Some friends mistakenly supposed that China would change its policy of reform and opening to the outside world, and would revive the old planned economy model. In short, it would pull back. I believe that the views of these friends are not very much in keeping with Chinese realities, and should be said to be mistaken.

It is true that beginning in 1989, the Chinese Government began improvement of the economic environment and restructuring of the economic order, expanded slightly the role of guidance plans, increased macroeconomic regulation and control, intensified market control, curtailed the scale of investment, slowed the pace of price reform, and controlled the amount of currency issued to halt inflation. However, this cannot be regarded as pulling back. Improving the economic environment and restructuring the economic order is certainly not pulling back. Improving the economic environment and restructuring the economic order is itself a step and a part of reform; it is to lay a foundation for deeper reform. Improving the economic environment and restructuring the economic order is for the purpose of overcoming the evil consequences of economic overheating and the impatience to succeed of the past several years. It is an effort to solve gradually the fundamental problem of a total social demand that has for many years exceeded total social supply. More than a year of improving the economic environment and restructuring the economic order has not only reached anticipated goals in controlling demand, readjusting the structure, rectifying the order, and curbing inflation, but also conditions are much better than anticipated. Although improving the economic environment and restructuring the economic order will have to be conducted for two or three years, I believe that many aspects of the economic situation during the past year or more already show the oneness of improving the economic environment and restructuring the economic order, and reform. One can see that improving the economic environment and restructuring the economic order is now driving reform and the opening to the outside world.

China's economic reform is for the purpose of building a planned commodity economy on a foundation of socialist public ownership, but some people regard building a market economy on a foundation of private ownership as the sole objective and model for reform. This reflects two views of reform that, in a certain sense, one might say are extensions of the controversy about socialist economic forms that has been going on since the 1930's. China's reform and opening to the outside world is for the purpose of building a socialist planned economy on a foundation of public ownership and for the building of an economic operating mechanism that is compatible with this model. It will use both the plan regulation tool and the market regulation tool in the building and expansion of the market regulation domain. How to combine better planning and the market is a matter that economists can explore step-by-step through discussion and practice, overcoming contradictions one by one for a steady advance of economic reform and economic construction.

The second matter [to be discussed] is how should the current economic situation be regarded? I believe that Premier Li Peng's March 1990 government work report made a realistic and profound analysis of this matter, and that the principles underlying the remedies proposed

are also in keeping with realities, and are thus correct. My overall impression is that this report deals with matters concretely.

The problems existing in China's economy today have accumulated over many years. Solving them will require seeking truth in facts, clarifying goals, adopting feasible courses of action, and proceeding with steady steps, making long-range and short-range plans, exercising macroeconomic regulation and control and microeconomic control, and readjusting the structure and improving returns all in combination. Authorities that should be taken back will have to be taken back, authority retained at lower levels will have to be exercised without distortion, and effective tilt policies will have to be adopted. The outlook is optimistic.

[4 May 90 p 3]

[Text] In another talk, I said that the momentum of prices rises has been contained during the past year, and that the inflation rate has declined tremendously. This is a gratifying matter, and it is also an accomplishment rare in the history of world economic development. Today, I would like to remind friends to note this point. This is a major achievement in improving the economic environment and restructuring the economic order. This achievement alone helps show the necessity and the feasibility of improving the economic environment and restructuring the economic order. China's national circumstances do not permit us to try out the economic theories, viewpoints, and policies that some people have proposed during the past several years of "inflation is beneficial," and "deficits do no harm." I suggest that we continue to control the amount of currency issued to achieve both control of total demand, while also increasing the issuance of currency at the right times and in the right amounts in order to insure the normal operation of the national economy. This means that prices will continue to occupy an extremely important position in future improvement of the economic environment and rectification of the economic order. This is a matter that will brook no neglect at all.

#### Fine Beginning in Structural Readjustment

My best information is that readjustment of the economic structure has gotten off to a good start during the past year. The uncoordinated development of agriculture and industry has improved, the development of basic industries has markedly accelerated, and these things can give impetus to the sustained, steady, coordinated development of the national economy. To use a common phrase, they strengthen reserves for economic development.

The third matter is that I would like to see vigorous increase in investment in agriculture. China's economic reform began in rural villages where the achievements are obvious to all. However, ever since 1984, agriculture has failed to moved ahead for several years in a row, and the agricultural situation is grim. In a large country with

a billion population, nearly 900 million of whom live in rural villages, China's rural economy holds a crucial position in the overall national economy. It is frequently said that agriculture is the foundation of the national economy. When agriculture fails to move ahead, a whole series of problems such as the food problem, the raw materials problem, and the market problem are difficult to solve. As to what can be done to make agriculture move ahead, I feel reliance must be placed on policies, science and technology, and investment. In recent years, reliance has been placed on only the first two. Failure to rely on the third one has caused losses, which are now being corrected. The central authorities have issued repeated injunctions and have declared many times that there is to be no change in policy. The use of science and technology to support agriculture and the implementation of spark plans to spread new agricultural techniques is also being carried out on a wide scale. In view of the situation today, I personally think that renewed emphasis should be placed on increasing the investment in agriculture. The repair of water conservancy facilities, the use of superior crop varieties and animal breeds, the purchase of chemical fertilizer and plastic mulch, and increasing the number of farm machines are all things that require the spending of money, and they also require corresponding materials. Even the cleverest Chinese housewife cannot cook without rice, so investment must be increased.

#### Joint Increase in Investment From Three Sides

Where is the increased investment to come from? I believe the state alone cannot be relied upon; more reliance must be placed on collectives and individuals, which is to say that increased investment in agriculture will require the joint efforts of the state, collectives, and individuals. More of the profits of township and town enterprises should also be plowed into agricultural production and into processing industries and other service trades that provide services to agricultural production. In no case may they be used up or frittered away in distributions. Reliance on science and technology, and the spread of agricultural science and technology also require a certain amount of investment. Happily, we see that the spread of agricultural science and technology is being given increasing attention by the broad masses of peasants. Nor can the investment of human labor be ignored. This matter will require a new tilt in policies to ensure fair compensation to peasants for engaging in agricultural production (particularly farming). In summary, my view is that the grand momentum of reform and opening to the outside world will brook no reversal. Achievements coexist with difficulties in improving the economic environment and restructuring the economic order, but the outlook is still hopeful.

[5 May 90 p 2]

[Text] Statement by Zhou Shulian, Director, Chinese Academy of Social Sciences, Industrial Economics Research Institute

Li Peng's government work report is a very good report that focuses on providing rather appropriate methods to solve existing economic problems. If a good job is done of putting them into effect, results will become visible. However, there are some problems deserving of studying.

#### An as Yet Undeveloped Market Mechanism

Stability is very necessary today, but how to handle the correlation between stability and the development of reform, and how to combine present stability and long-range stability, and so forth, are matters deserving attention. Enterprises placing workers under contract and local governments placing enterprises under contract have not served to increase enterprises' returns or to readjust the industrial structure as the retrenchment policy requires. In the absence of resolve to increase returns and improve the structure, there can be no establishment of a benign cycle, and some difficult-to-handle situations may possibly occur. The government work report makes a very fine exposition of the relationship between planning and markets, which is very important, but I believe that our market mechanism today remains undeveloped and unsound. In the development of a commodity economy, how to spur development of markets while strengthening plan guidance for fuller use of the role of the market mechanism is a problem that has to be given attention in dealing with the correlation between planning and markets. I believe it to be an important problem.

#### The Contract System Is Progress

Now I will express some views about enterprise reform. First, I believe that adherence to and perfection of the contract system is a realistic choice. The contract system has been controversial in the past, and it still is today. I believe that the contract system offers very many advantages for enterprises over the former traditional system. Contracting enables both the state and enterprises to have a contractual relationship, which is clearly an advance. Of course, there are numerous problems requiring improvement in the contract system, but it should be maintained.

Second, in the process of improving the contract system, attention should be given to the problem of a draining away of state-owned assets. As I understand it, the draining away of state-owned resources is extremely serious. What belongs to the state is being converted into the property of the collective, and what belongs to the collective is being converted into individual property, public property becoming private property. Today, in particular, when inflation is serious and depreciation rates are low, the reproduction of fixed assets is very greatly damaged. Unless serious attention is given to this problem, the day will come when even simple reproduction will be endangered. Thus, this problem must be given serious attention while perfecting the contract system, and a solution found. I believe this problem can be served in the perfection of the contract system.

### No Overlooking Distribution Problems

Third, in the process of perfecting the contract system, serious attention must be given to distribution problems within enterprises. A recent questionnaire survey showed that the belief of 85 percent of staff members and workers that distributions were unfair was the main reason damaging their enthusiasm for production. Unfair distribution was cited as occurring in many forms, such as use of prerogatives to increase income, an unfair gap between high and low distributions, resort to deception to get bonuses dishonestly, and egalitarianism. Following reform, the very first matter discussed was distributions according to work, but the distribution problem was never settled very well.

Fourth, it is necessary to pay attention to the enterprise management issue in the perfection of the contract system. Reform emancipates productivity, but if there is only reform and no management, production cannot be organized very well, nor is it possible to develop production and improve returns. We have very many problems in management such as the substitution of contracting for management, a decline in management levels in some cases, failure to pay attention to management, numerous policy changes, and failure to pay attention to leadership.

### No More "Eating Out of the Large Common Pot"

Fifth, the shortcomings of the enterprise contract system should be realized. I do not believe that enterprise contracting can become a goal in the reform of enterprises because such a system makes enterprises subordinate to the state, and I believe that such a subordinate relationship should not exist in truly modern enterprises. Of course, this is something that government has to be concerned about. In addition, under the present contract system, enterprises have only administrative and management authority, but they do not have assets of their own, so how can they be responsible for their own profits and losses? Although enterprises today do have an enterprise fund, it is under public ownership, so this is still a "large common pot" situation. Therefore, enterprises that practice the contract system cannot establish an extremely sound self-limitation mechanism. I believe that the goal for reform should be truly autonomous operation, with responsibility for gains and losses, self-development, and self-limitation. Although the contract system goes a long way in these regards, it cannot reach this goal.

[6 May 90 p 3]

[Text] The following situation exists in the process of perfecting the contracting system: When everything is taken care of, when output, quality, and so forth, are included in the plan, not only are an enterprise's decisionmaking authority and vitality not increased, but rather the enterprise is tied down.

We must respect enterprises' autonomy, and while improving the contract system, we must continue to

implement and expand policies relevant to enterprises' autonomy. I feel that currently not only are many policies not truly implemented, there are also a few which have problems when implemented, and macroscopic management has not kept up with them. I believe that expanding enterprises' autonomy must be one of the main tasks when improving the contracting system. Only in this way can the contract system be truly upheld, improved, and developed, and enterprises be truly invigorated.

### Need To Actively and Deftly Reform Prices

Perfection of the contract system should be done in combination with reforming prices actively and deftly to accelerate the market. Do not suppose that in perfecting contracting and markets that the price issue is not important. We must actively and deftly improve the price system to accelerate the market. I believe that development of enterprise reform depends to a very large extent on market and price reforms. Today numerous people realize that the contract system has its limitations and that further development of enterprise reform is necessary, such as institution of a stock share system. However, the condition of the market limits enterprise reform. When market reform, and price reform (penetrating) move ahead, enterprise reform will develop along with them.

I recently heard an argument to strengthen centralization and planning and restrict decentralized authority the market. I believe that strengthening centralization and planning is totally necessary, but we must analyze restriction of decentralized authority and the market. Will regions or enterprises be restricted? China's market mechanism is inadequate, and the mechanism's usefulness can be given full rein under the premise of strengthening planning. (Ji: This statement does not conform to policy.)

### Reform Goals Must Be Clarified

Finally, I believe that the goals of reform must be clarified, and all possible done to move deftly. Our goal is to establish a planned commodity economy system. For enterprises, this means attaining the goal of being responsible for their own profits and losses, having autonomy in operation, developing themselves, and being self-limiting. It is necessary to move along in a down-to-earth way, and to go through a fairly long period divided into very many stages. I believe that there should be a consolidation period in each stage. We should not simply move ahead without consolidating. The division into stages should also be scientific, required and feasible work being proposed for each stage, and integrated. Each stage should see the development of production, improvement of the structure, and increase in returns, one step at a time.

In terms of this principle, I believe Premier Li Peng's report was a good one. Those who suppose that the institution of a deflationary policy marks a retreat are

wrong. Reform should continue to deepen, and it should be done in stages rather than completed in one step. Sometimes, it will be necessary to halt and consolidate, i.e., to improve, to readjust, and to rectify.

### **Hong Kong Economists Analyze Mainland Work Report**

90CE0168A Hong Kong WEN WEI PO in Chinese  
9 Apr 90 p 30

[Article: "Hong Kong Economists Hold Seminar on Chinese Government Work Report"]

[Text] A discussion meeting "to examine economic problems in the government work report" was held during March in the Hong Kong World Trade Center. It was chaired by the chief editor of WEN WEI PO, Zhan Yunfeng [1728 0061 2800]. Honored guests and speakers included Wang Yujian [3769 0060 3362], a senior lecturer from the economics department of Chinese University; Chen Wenhong [3769 2429 7703], a researcher from the Asia Research Center of Hong Kong University; Hu Dunai [5170 2415 7224], senior lecturer from the [Hong Kong] Baptist College Economics Department; Luo Xiangguo [5012 4382 0948], director of the U.S. Xinfu [0207 1318] Securities Company; and Zhang Jiamin [1728 1367 2404], local director of research of the SRI International Company Project Group. Cai Junhua [5591 0193 5478], a senior lecturer in the Hong Kong University economics department, also expressed his views in writing. A summary of the seminar follows.

*Wang Yujian, senior lecturer in the economics department of Chinese University:*

In 1980, when difficulties appeared in China's national debt and financial payments during reform and the opening to the outside world, the means required to solve the problem were very clear, namely, a readjustment to bring under macroeconomic control once again matters that had gone out of control. One might say that China also faced this same kind of situation during 1988, but to a greater degree and on a wider scale. Subsequently, at the beginning of 1989, it generally tried to apply the same methods to stabilize the economy, but with a substantial difference in the results obtained. I believe that the most important problem was that after so many years of reform, the previous plan methods could not be used to bring about economic stability. Sudden application of the brakes caused the economy to sink into a very deep depression.

A look at simple numbers shows that in 10 years the output value of rural nonagricultural industries increased from the previous 30 percent to 50 percent of gross national product by 1988. Most of this was from enterprises whose production was not part of the state plan, meaning that a very great portion of gross national product, whether justifiable or not, and whether beneficial or not, was not within the state plan. When the brakes were applied suddenly, state-owned enterprises were brought to a halt, of course, but other parts of the

economy also stopped completely. This was extraordinarily serious. Furthermore, the figures show that the productivity that developed fastest during the 10 years was, without doubt, rural productivity (albeit nonagricultural production enterprises accounted for half of it, for better or for worse). Just how much the productivity of state-owned enterprises developed is very questionable.

The current government work report seems to be a mixed bag. Efforts were made to try out everything, including readjustment as well as reform and opening to the outside world. The government did not intend to cause a complete halt, but at the same time it wanted to deepen reform to control prices as well as make some readjustments. The report talks about everything. This reflects the current difficulties, which cannot be solved through the use of a single method; and it also reflects that there is no clear course for handling the next step in development. Quite obviously, it is the current difficulties that are to be solved first, but the report is not very clear about what the next step is to be. The report says a great deal, but one has to watch for what will play the key role throughout in implementation. The report first talks about loosening credit for capital construction and heavy industry, but it also proposes allowing development opportunities for collective enterprises that are making a go of it. This does not seem too clear.

Actually, I believe that the big accomplishment of the past 10 years was not necessarily the building of a complete system, but rather that substantial resources were transferred from heavy industry to light industry, and from state-owned enterprises to collective enterprises. Such a readjustment was talked about for a very long time, but it never succeeded. However, it was realized during reform, but it will be incompatible with economic benefits if it now reverts to the previous percentage. No matter whether there is to be continued reform or readjustment, the proper planning of these proportions is of extraordinary importance to China's future economic development.

Opening to the outside world and reform, delegation of authority and making concessions have their place, but, without price reform, all the ills of the economy will certainly emerge. A solution lies in removal of price restraints. Prices include important prices such as wages, foreign exchange, special prices, and interest rates. The leaders say that, because there was no change in prices in China for 40 years, when a 29-percent inflation occurred in 1989, everyone felt this was very serious. The main reason the people refuse to accept this is that prices increased, but wages did not. Certainly, inflation is not necessarily good for the economy. The 1989 market slump occurred very quickly because individuals and groups realized that China's economy would slow. As a result, consumers curtailed spending. Formerly, very much consumption was done on credit because everyone had a good feeling about the economy, and they predicted that income would rise and they would be able to repay their loans. China was apprehensive that price

reform might lead to difficulties, but without price reform, China would be very unlikely to realize everything that was to be done in the report, and it was even more unlikely that there would be any improvement in China's economy. Naturally, reform of interest rates alone would not suffice; reform of the banking system would have to be carried out. The People's Bank could not have a monopoly. Every region, province, and even every major city would have to have a bank to engage independently in loan activities. In other words, without a vigorous lending and borrowing market, should there be a loosening of the money supply through the central bank, all of it might very easily flow into consumption and be reflected in inflation without stimulating the economy. This is what China was concerned about. There would be no so-called overheating of investment so long as investment was not financed through the issuance of banknotes. If investment were to come from savings, whatever was saved could be invested. As a result of the delegation of authority and the granting of concessions rather than carrying out price reform, China's investment problem could be solved only through the issuance of banknotes. An example was China's housing reform which ended up with no one buying houses because no credit market existed to provide mortgage loans. I believe that local banks are certainly able to raise funds, so why do Shanghai and other places want to raise funds through the stock market? The fact is that economic conditions in China today are not at a level at which funds can be raised through a stock market. The use of a stock market to raise funds should be encouraged only when there is a high degree of development, a perfected enterprise code, and a supervision and control system. In fact, only when there are local banks that can play a role in lending funds will the outlook for development of China's economy be very great. In other words, prices have to be reformed and interest rates have to be adjusted first, and every jurisdiction has to have local commercial banks. Can foreign capitalized banks play a role in this? There are policy problems, but it is better to have them than not to have them. Reform of the financial system should be actively pursued.

*Chen Wenhong, researcher in Hong Kong University's Asia Research Center:*

When this work report is looked at in terms of policy, if more is invested in agriculture, and things like the market slump are improved, this amounts, in principle, to setting a course. But the specific implementation and how the State Council or the government will handle matters is very difficult to forecast. The situation in 1989 was that the principles were set, but when it came time for implementation, numerous political factors were considered, occasioning quite a few changes.

Furthermore, more investment in agriculture, free markets, and actions with regard to credit are matters that the central government cannot completely control. In increasing investment in agriculture, the principle investors are the peasants themselves; the amount by which

the government increases investment would be very little. Besides, deductions and diversions as the government investment goes down through the various levels of government will mean that very little funds will be used directly for the building of farmland. Even if the government really provides more of the agricultural means of production, the peasants will not necessarily want to invest in agriculture unless they want to invest, no matter how much the government provides and no matter how inexpensive the materials.

On the market slump issue, I do not believe that more credit can solve the problem. For example, the earlier moderate consumption proposal was made, I feel, out of a simplistic belief that investment could make the market thrive without considering or concretely analyzing the market situation. Actually, the consumption structure has changed. I think there has been some debate on this point in recent months inside China, but the debate has considered not only economic difficulties, but the central government, in particular, has also considered too many political factors during this period. Therefore, on matters having to do with the extent to which credit should be loosened, there has been simultaneous discussion of the appropriate amount and the appropriate time for regulation. Although, this achieved reliable control superficially, the amount of credit issued during 1989 actually exceeded plan. (It appears on the surface that credit issued in 1989 was lower than the total plan amount, but in reality this was because the plan was readjusted during October. Naturally, if the plan is always adjusted to increase credit, the plan will never be exceeded). Therefore, I feel that a very big problem is that the report is correct with regard to the economy, but the problem is how to carry it out. Moreover, in view of the 1989 examples, we cannot simply look at surface principles and aspects.

Another thing that should be added is that I feel strongly that this report is a short-term one considered solely in terms of political stability for the purpose of maintaining the existing pattern. For example, it does not further address abstract political principles for long-term reform and development. Nevertheless, I feel that overall it is a new departure in that it no longer talks about the market being dominant or the plan being dominant with regard to the relationship between market and plan. Instead, it stresses that at different times, in different industries, depending on different needs, and in different categories the combination of circumstances may determine a different combination of responses, development being done as the economy warrants. Furthermore, economic development is no longer judged superficially in terms of speed, but rather on the basis of increased returns and long-term stability. Therefore, in an ideological sense, the present government will not consider a goal of complete market regulation. However, the problem is that since this principle has been established, the government's concrete actions do not take account of the experiences of 1989, but only maintain the existing pattern without change. As for the two main emphases of

the report—agriculture and the market slump—the report first proposes serious attention to agriculture. However, the increase in agricultural output during 1989 was actually attributable to good weather rather than to the amount of investment. Nevertheless, it suggests further increases in agricultural output in view of the increased 1989 output. This is very risky, and I doubt there is much chance for success. It has to be understood that the principal investors in agriculture are the peasants, and the government has no way to intervene in what they do. Even if the method of increasing procurement prices for agricultural product is used, the problem is what percentage the price increase is to be. In rural areas, what is to be the comparison between agricultural and nonagricultural benefits? What about the problem of supplying the means of production? Since the dismantling of the people's communes, the government's only power to control the countryside has disappeared, so how can the government arouse the interest of the peasants in farming? Because of the existence of these questions, I believe that the agricultural harvest in 1990 will not necessarily be as good as last year. However, since the report did not touch on specific ways to solve these problems, I am in no position to criticize the report.

As for the market slump, we very clearly realize on the basis of events during 1989 that the slump began during May and June, and it followed a pattern. First was high-quality consumer goods, followed by consumer goods used in everyday life, and then the slump went on to the means of industrial production. Very important structural factors were involved in this. (This is not yet appreciated inside China, so the report did not discuss it.)

On the other hand, what are the reasons for the market slump? Aside from a contraction of the purchasing power of social groups (but this could not have been too great a proportion of the market), the entire market demand, or the consumption pattern of city and rural residents, changed. This is to say that, formerly, consumption exceeded income and people even borrowed to maintain consumption. In 1989, however, the reverse was true. Income exceeded consumption, leading to an inflation of savings deposits. Once this pattern formed, no matter how much money the government invested, it could not readily change the market slump.

Actually, we realize that there was virtually no tightening of credit during 1989. The amount of all forms of credit was more than 20 billion yuan more than during the economic overheating of 1988, and the total amount of credit granted was even more. However, it was during the last half of the year, when the amount of credit issued was greatest, that industrial production and consumption both declined. Obviously, freer credit could not stimulate the market. The main reason for the high-speed increase in China's industry during the past several years was the consumption of high-quality consumer goods. However, when the people did not dare consume, anything short of expanding the purchasing power of

social groups or procurement by the government could not rapidly cause a rise in consumption and production. If the issuance of credit increases in 1990, however, it will only strengthen inflationary pressures and keep large numbers of enterprises from producing.

In conclusion, I feel that the foregoing two-point analysis proves that the government did not specifically examine the economic policies of 1989; consequently, people feel that economic policy was considered in short-term political terms rather than from a solid, long-term economic standpoint.

*Hu Dunai, senior lecturer, [Hong Kong] Baptist College Economics Department:*

This report is rather well written in an economic sense since it encompasses a very great scope, capsulizing everything from the basic macroeconomic system to short-term economic problems. The report also proposes ways to solve problems. In my view, its thrust is correct and, given the various limited choices available, matters must be done the way it says. Of course, specifically how to handle the market slump requires further consideration.

One can detect several special points from this report. First, it discusses what is meant by a socialist planned commodity economy. Naturally, this is superficially the same thing as has been said before, namely, division into a command-style plan, a guidance-style plan, and market regulation for a coordination of economic activity. The report also mentions that the three are not truly completely independent of and unrelated to each other. For example, the command-style plan and the guidance-style plan can be formulated only with reference to market demand, and the market must be in keeping with the orientation of the country's development. However, the most important point, and one that differs from the past, is that formerly the orientation was almost always explained as primarily specific measures, but this time the proportional trend of development of the three was not spelled out. Instead, emphasis was placed on revisions at different times and under different circumstances. This is important. We cannot suppose that there is no reform simply because a substantial percentage of the economy is a planned economy, and that only a market economy equates with reform. Actually, when faced with such severe difficulties and limitations, the only thing that can be done is to improve the tools of macroeconomic coordination, meaning command-style coordination. This applies not only to China, but to Western countries such as France as well. However, this means that for the next several years the percentage of the command-style economy together with the guidance-style economy will be relatively greater than the percentage of the market economy. This is all that can be done. Therefore, the report takes a lot of space to explain this. The percentage of the three has to be adjusted according to changing situations and changing needs. When there is no set inclination one way or another, this avoids being bound hand and foot when new problems



are encountered. For example, when a decision is made to open to the outside world, but the government has no economic levers at hand to regulate the economy when difficulties are encountered, all it can do is use command-style regulation, but it dares not use this for fear of being condemned for backtracking, so it has encumbered itself.

In addition, beginning in 1990 and throughout the early 1990's, the emphasis will be on structural readjustments and improvement of economic returns.

During the earliest period of policy retrenchment, because it lacked an economic regulatory mechanism, the government drifted into the practice of arbitrary uniformity, forcing a retrenchment of industries and enterprises that was not in keeping with requirements, making them give up resources that they did not truly need. Later on, the government made purchases in order to supply the urgent needs of industries and enterprises, thereby attaining structural readjustment. Such a stage prevails right now and if this stage is botched the retrenchment policy will fail completely. If it succeeds, solution to the market slump problem will also be possible. It should be explained here that a slump is the normal effect of a retrenchment policy. This is because after a period of tightening of the money supply, the enterprises' surplus funds will become exhausted.

Second, people believe that the government is holding back money and waiting to buy as part of its retrenchment decision, and this leads to a complete market slump. These events began to appear during May and June 1989. However, looked at from another angle, this provides government with a fine opportunity. The government recouped quite a bit of capital and is able to stimulate a relative increase in resources, thus, because of the drop in prices, enabling it to begin to be able to carry out a fairly effective structural readjustment, particularly a readjustment of the product structure.

Naturally, this stage will also create a certain amount of adverse effect on the employment rate, the standard of living, and government financial revenues.

The report also referred to the specific reasons for the slump, namely control of social demand. Taken together with the insufficiently rapid readjustment of the industrial structure, this made for an inequitable allocation of resources that did not compel enterprises to produce according to market demand. For this reason, the report repeatedly emphasizes readjustment, meaning the continued need for retrenchment. The basic theme of the whole report is readjustment of the industrial structure rather than the liberalization of credit to turn the market around. Even though credit uncoordination is a reason for the market slump, it is of secondary importance.

Of course, credit has to be liberalized, but this must be done selectively, meaning credit must be given to sectors that ought to be developed. The report particularly stresses credit for commercial units and materials units in the circulation realm. The reason is that solution to

the market slump problem depends in the long run on readjustment of the industrial structure. In the short run, there are two methods of solution. The first is to stimulate exports, exporting goods that are accumulating in inventory. This can be done by lowering exchange rates, or by liberalizing credit for the purchase of goods for export. Moreover, appropriate stimulation of exports during this period will not intensify inflation. Because exporting solves only the problem of goods accumulating in inventory, it will not create a scramble for domestic and foreign markets. Actually, the market that China ought to open up is Eastern Europe. This is because Eastern Europe has just opened to the outside world, greatly increasing its demand for consumer goods. It also lacks foreign exchange to buy products from the West. China's relatively inexpensive products suit needs perfectly. Even if Eastern Europe is unable to pay at the moment, credit can be used to solve the problem of goods accumulating in inventory.

The main purpose of the report's emphasis on the liberalization of credit for the commercial and materials sectors is, I believe, to take advantage of the current drop in prices of goods and materials to permit these sectors to buy more goods. Admittedly, this would sustain a certain degree of demand, but most important, it would accumulate more commodities for use in future stabilization of the market. (Of course, how the central government controls the commercial sector's legal and normal operation is another question.)

It should be added here that even were credit to be liberalized, the amount could not be very much. At only six percent of gross industrial output value, the liberalization of credit certainly would not be much. Naturally, it would also be not enough to change the people's consumption psychology; thus, there is no need to fear that a liberalization of credit would induce people to buy large amounts of goods once again.

As regards the unemployment problem that the market slump occasions, I believe that one important factor considered in the report's emphasis on the development of agriculture, the importance of agriculture itself aside, was to absorb the unemployed from rural villages. I believe that part of the goal in the report's discussion of a rise in procurement prices for agricultural products is to make farming more attractive. In addition, the government might be able to rebuild its grassroots-level organizations, such as the party organization, for the purpose of coordinating peasants' large-scale building of the agricultural foundation. Moreover, the report also cites the desire to develop the capital construction of rural villages.

In the cities, the hope is to convert open unemployment into hidden unemployment, meaning to sustain the unemployed through enterprise mergers, rather than force them on society, thereby avoiding social and political problems, but this makes unavoidable a slide toward a large common pot situation in which everyone shares regardless of performance.



The report shows a desire to readjust the industrial structure over the long term, and to cure the market slump and stimulate exports in the short term. Naturally, success or failure in this will be determined by ability to control overall social demand, as well as the problem of relatively poor areas competing with fairly rich areas. First is the levying by the central government of an individual income tax and an increase in local jurisdiction turnovers of taxes to the state to increase financial receipt capabilities. In addition, the various favorable factors that the retrenchment policy occasions makes me believe government's control capabilities will be relatively increased.

The competition problem depends entirely on whether the central government is able to make the distribution mechanism work, and this will depend on the prestige of the central government.

Finally, if government departments are to perform genuinely according to plan rather than abuse authority for private gain, there will have to be a rebuilding of ideology and of government officials' sense of honesty and service.

*Luo Xiangguo, director of the U.S.Xinfu Securities Company:*

The Chinese Government acknowledges the following reasons for insufficient control over the macroeconomy in recent years: 1) insufficient experience and 2) insufficient regulation and control of market economy operations brought about by different policies. After 10 years of removal of restrictions on the economy, the portion of China's economy regulated by the market economy expanded, and the government acknowledges that the situation brought about by the market economy was not sufficiently controlled. As a result, very many developments occurred in China's economic structure during the past two or three years that the central government was unable to anticipate and control. High inflation was the most important phenomenon reflecting the situation. The policies set forth in the present government work report were actually put into operation during 1989 in the form of a curtailment of economic investment. In addition, the development of many consumer industries, as well as those in which foreign funds were invested, was controlled.

I believe that during China's present stage of development, there will be a limited retrenchment of fairly high-quality consumer goods in a rationalization of policies. Here I have one or two things to add: An international investor, specifically a financial business like ours, judges China's repayment capabilities regularly. It is rather a pity, however, that data are really insufficient to make judgments, except for some oral or published statements by some persons in charge of organizations in China such as that the percentage of credit remains below 15 percent and that during 1989 total foreign debt was maintained at approximately the 40 billion level of 1988. In a situation in which both the

political and economic atmosphere are unfavorable in China, the attitude of international bankers is to be fairly conservative; consequently, loans to China are bound to diminish and costs will certainly rise. Therefore, I suggest that the Chinese Government use some relatively conventional channels to make a rather routine disclosure of its foreign debt situation as well as how well it is being controlled. This would permit banks providing foreign capital to be fairly objective in considering whether to make loans to China and to make comparisons with other countries.

I also believe that increasing savings is very important for any backward country. Of particular importance is how to be able to use rural savings. The enthusiasm for saving by rural society, which makes up 80 percent of the population, has to be effectively applied to make effective use of funds. I believe that very many developing countries have experience with this, which China can use to good advantage. In large cities, many foreign capitalized banks should be permitted, and both foreign currency and renminbi savings and loan operations should be allowed. This would stimulate the development of China's banking and should be very helpful. One of China's current problems is a shortage of capital and another is how to use this insufficient capital effectively. The appropriate participation of foreign financial organizations would be very helpful to China.

The numerous economic policies that the Chinese Government advanced in the wake of the "4 June" incident surprised and bewildered me. Because this was a time of relatively difficult economic and political events, policymakers were determined to push a number of helpful policies. Examples were as follows: 1) A 21-percent devaluation of the renminbi at the end of the year. Actually, at the beginning of 1989, many observers figured that the renminbi would be devalued, but after the "4 June" incident, many people no longer talked about this because they felt that another devaluation would lead to inflation as well as political pressures, so the likelihood was relatively small. Nevertheless, China did it. Despite the hidden political objectives, this step on the part of the decisionmakers provided an important tool for China's entry into international financial and product markets. 2) The raising of numerous prices and the reduction of state financial assistance and waste in recent months is something that has not been done for many years. From the standpoint of the market and the economy, most economists believe that this will put stumbling blocks in the way of the economy unless the government has a clear-cut goal, such as large scale financial assistance services or products. 3) Long-term land use lease agreements with foreign businessmen have gradually come into use in Hainan, Tianjin, Shanghai, and even Guangdong, and these provide a sufficiently long-term stable environment for attracting foreign capital, and both investment and profits are assured. The attractiveness of China for the introduction of capital and technology has also increased. 4) In order to improve the market slump, the government reduced

special consumption taxes and has taken the first step toward solving problems that have occurred in idle production lines and difficulties in foreign-owned plants. 5) During 1987 and 1988, foreign debt increased very rapidly and went out of control as a result of numerous units having authority to examine and improve foreign loans. During 1989, the Chinese Government centralized the examination and approval window in 10 organizations. This was also the right thing to do.

From both the 1989 and the 1990 government work reports, one can see that the comprehensive reform plan that China has pursued is well based and effective so long as it helps China's development, and much is in process of being done. However, there are still very many matters that they do not know how to handle, such as reform of enterprises. From what I saw of the stock market in Shanghai, it was issuing a fairly large amount of commercial paper, hoping that many companies would raise money in the stock market, and hoping even more to attract the investment of foreign funds in stocks. However, as I understand matters, if China's state-owned enterprises want to raise money in the stock market, and if they not only hope to pool local funds but even more to pool foreign funds, they face very many difficulties. For example, is the accounting system able to be understood and accepted by international investors? What is the supervision and control structure like? And what is the education of investors like? No start has been made on any of this. Although China has several pilot projects that it hopes will amass capital through the stock market, how to transform state-owned enterprises that have operated for a long time under the socialist system into companies that Western financial markets can understand in terms of both accounting and operating methods, and that have the conditions for entering markets provided the financial system is supervised and controlled, are questions for which Western economists do not have the answers. China can only learn from its mistakes and explore slowly. However, very many problems that cannot be solved at the theoretical level continue to exist. Some problems are also being handled very slowly and some have either not been raised in the report, or, if raised, no answers have been provided. Nevertheless, I cannot make any demands of the national leaders at this stage.

*Zhang Jiamin, local director of research of the SRI International Company Project Group:*

My understanding of this report is as follows: It is a response to the problems that the economy currently faces to enable the economy to take a road toward coordinated development, thereby benefiting the stability of the entire Chinese society.

What I would like to talk about first is the various difficulties that China's economy is currently facing. One might say that they were brought about by two factors and two periods. The first was the loss of control of currency and wages in the wake of the Third Plenary Session of the 12th party Central Committee during late

1984, which continued to the panic-buying craze of September 1988. This was the result of a lack of coordination in many regards in reform. Second was the problem of putting on the brakes too fast and acting with arbitrary uniformity in the process of improving the economic environment and restructuring the economic order, which caused many enterprises to face very many difficulties. I believe that the report tries to face these two difficulties. However, the very many problems in these two difficulties are actually contradictory. Simply stated, today's problems were occasioned both by the reform era and by the era of improving the economic environment and restructuring the economic order. Furthermore, simply stated, these difficulties include the following several points: 1) Overall social demand exceeded overall supply. 2) Numerous uncoordinated situations appeared in the economic structure. The ratio of development between industry and agriculture and the development of basic industries was rather poor, while processing industries developed too rapidly. As a result, the supply of energy, transportation, and raw and processed materials was completely unable to satisfy this development. This caused a great idling of productivity in very many factories, and generated very great waste. 3) The reform process delegated authority to allocate capital, foreign exchange, and materials. This made control impossible. The above three problems grew out of reform. Furthermore, the problem resulting from improving the economic environment and restructuring the economic order is fairly clear, namely that numerous enterprises could not withstand the overly tight money supply and went bankrupt. I believe that both situations occurred, and that the report tries to resolve them. Naturally, after seeing these numerous problems, a year's rectification has produced results. I believe that the overly rapid growth of the processing industries has slowed and that inflation can also be brought under control. Furthermore, a bumper harvest in agriculture may occur, thanks to favorable weather.

In evaluating this report, I am more interested in analyzing the reasons for difficulties than in pointing out the difficulties themselves. As a result of this analysis, I feel even more that the report solves some problems.

First, with regard to demand, this analysis has to take into account that in a country like China that is limited by insufficient natural resources and surplus labor, supply has to be particularly emphasized in the economy. And in supply, I believe that structural balance is really most important. The reason includes mistakes in policy decisions such as supposing during 1984 and 1985 that agriculture had already turned a corner and consequently reducing investment in it. Certain reasons also exist in the mechanism. Reform of the price system frequently means reform of the prices of some ultimate consumer goods. This falling on ultimate good results in these goods turning into something from which a profits can be made, so people swarm to invest in goods in short supply, thereby worsening the imbalance in the economy. In addition, in countries such as China that

are rather backward, the not very high ability to substitute means of production means more bottlenecks. I believe that very great problems occurred in structural imbalance, in supply, and in the policymaking mechanisms.

Second, I personally feel that China went too far in applying its experience with rural reforms to the cities. True, agricultural reform was very successful and very simple, but the use of such simple methods of delegation of authority and granting of concessions to deal with the urban economy's rather complex, interrelated, and myriad relationships was a horse of a different color. I feel that, given these circumstances, without more macroeconomic control, no use of the old forms, and no use of administrative commands when new forms were not as yet established, and while the market was not well formed in many places, plus the spread of no responsibility in enterprises, as well as localism were reasons for the loss of control over the Chinese economy.

Third, there was the unplanned commercial activity that occurred under the dual track system or markets under control of the bureaucracy, which led to an outbreak of the scourge of buck passing.

Fourth, I feel that insufficient consideration was given to the removal of price restrictions in September 1988, and that this was a hot-headed thing to do.

On the other hand, I also feel the present arbitrarily uniform actions, or the excessive retrenchment, was brought about by overvaluing the function of economic policy decisions. When problems occurred, it was immediately supposed that they could be solved by putting on the brakes quickly.

In rereading this report, I have several major impressions as follows: 1) I feel it greatly emphasizes stable and coordinated development in the very great hope of proposing methods of solving all problems. 2) It is very similar to the previous readjustment policy, and it is also very similar to the talk of fairly conservative Chinese economists such as Chen Yun. It is like *On National Power*. 3) It can be very effective in solving short-term problems, but it falls short in solving long-range problems of the entire economy, or problems in reform and opening to the outside world, causing people to wonder about the long term.

The report's eight-point suggestion for handling the economy may be divided into several parts: Contraction of demand to do a good job of government financial work, greater price control to solve the market slump problem, solution to the population problem, and increasing supply, bolstering agriculture, and solving processing industry and capital construction problems. The report also notes that science and technology and education are always the most important factors in China's economic development. Therefore, I feel that on matters pertaining to demand and supply, it attempts to respond to the current problems.

I feel that the report makes a fine summation. It address in a very systematic way demand, supply, and adherence to reform and opening to the outside world, and is a rather complete report. However, it has no long-range view toward the orientation of reform of the entire economy.

In addition, I feel very much that the government will reemphasize the central plan segment of the economy. Certainly, when faced with the present serious difficulties, it will certainly do so on the basis of 40 years' experience. It would not be fair to suppose simply that it was backtracking. The report certainly does not address reform very much, but I have also maintained that for China's economy to truly attain the coordinated development of which the report speaks, reform of the policymaking process and mechanism will be necessary. One policy error was to go ahead simplistically with large-scale construction when the economy was in fairly good condition, thereby giving rise to problems. As for the mechanism, the appearance of all sorts of problems in economic reform really required overall solution, but the present retrenchment process is more favorable to reform. The report also addressed this point, as for example, improvement of the contracting system. In addition there is regulation and control of the macroeconomy, which is also important and necessary, because without it a coordination mechanism will be completely lacking.

*Cai Junhua, senior lecturer, Hong Kong University economics department:*

The problems that China's economy is presently facing are several as follows: First is the problem of whether the retrenchment policy should be relaxed; second is the market slump problem; third is the problem of the economy's speed of growth; and fourth is the problem of the position of agriculture.

#### 1. Should the Retrenchment Policy Be Relaxed?

The retrenchment policy has achieved a great deal. It has brought about a decline in inflation, including a decline in both open and hidden inflation. By decline in open inflation is meant a decline in the national retail price index from 27 percent in 1989 to seven percent by the end of the same year. The hidden inflation that Ke-nai-er [4430 1143 1422] cited referred to a scarcity index, which was extrapolated from the end products in storage as a percentage of raw and processed materials in storage. Following the promotion of the retrenchment policy, China's scarcity index declined. Nevertheless, the retrenchment policy is still under pressure. The change to slow economic growth in the wake of retrenchment set off a chain reaction of reduced financial revenues for enterprises, local governments, and the Ministry of Finance. The way to solve this problem cannot be to take the same old road of the past of not continuing with retrenchment. Instead, the retrenchment policy must be adhered to in order to force enterprises and local government to change their state of mind and actions,

relying on increases in output value to get by, and changing to reliance on increased economic returns to get by.

## 2. The Market Slump Issue

The market slump is not a problem of insufficient capital or purchasing power, but a problem of price distortions. Why is the consumer goods market glutted? It is not because consumers do not have money to buy (statistics show 700 billion yuan in savings during the year). It is because consumers face a choice between whether to save or consume. The attraction to "maintain savings" is very strong; furthermore, urban residents expect prices to fall. Enterprises' failure to purchase means of production is also not entirely attributable to a lack of funds, but rather to the improper direction of flow and distribution of funds. Although there is no market for poor-quality products produced at high cost and they accumulate in inventory, the interest rates that are borne are not high, and after taking price rises into account, the actual interest rate may be a negative figure. Nevertheless, enterprises that are able to sell their products cannot get the money to bring in goods. The solution is price reform, and prices have to be smoothed out and regulated. Right now is the best time for this, because there is no fear of arousing inflation. If interest rates are not to be increased, readjustments will have to be made.

## 3. The Question of Whether Suitable Economic Growth Should Be Maintained

Suitable economic growth is necessary because population is increasing, in order to provide employment opportunities and to raise the people's standard of living. In addition, to get a certain amount of capital accumulation, a certain amount of economic growth is necessary. However, high-speed increase is absolutely undesirable, because it may cause inflation and currency devaluation, and goals will never be attained. For example, between 1980 and 1989, China's gross national product more than doubled, the average speed of increase being 10 percent per year. Per capita output value increased from 447 yuan to 1,430 yuan. However, the renminbi exchange rate fell from 1 yuan per \$0.65 to \$0.21, a 70-percent devaluation. As a result, per capita output value, which was equivalent to \$300 in 1980 was the same in 1989. It did not advance at all. The government work report says another doubling is to occur by the year 2000, with per capita output value reaching \$1,000. However, extrapolation from presently available data shows that if the renminbi rises in value and is not devalued, by the year 2000 per capita output value will reach only \$560; therefore, further talk about doubling is unrealistic. Talking about a doubling of the people's standard of living is more realistic than talking about output value.

## 4. The Problem of the Position of Agriculture

Considering the large population, China's food problem cannot be viewed lightly. However, the trend of economic development has doomed agriculture to steady

decline. Peasant movement into cities to work in industry is also a natural trend that cannot be prevented. Furthermore, China is no longer closed to the outside world, but has entered the age of active participation in the international division of labor. It will have to pay an extraordinarily high cost to be completely self-sufficient in agricultural products. This will place a drag on the speed of China's economic growth and is also something that China's trading partners will not permit. Following the "4 June" incident, the Chinese Government placed more emphasis on agriculture than formerly; however, China's capital shortage necessitates consideration of where investment can be made to greatest effect. Persistent investment in agriculture can create waste. Why not produce more industrial goods that generate large returns and use the foreign exchange gained from their export to buy grain from foreign countries? The time of self-sufficiency in food is past; it should not be allowed to exert a drag on the development of the nation's economy.

## Shanxi Official Discusses Price Control, Reform

90CE0075A Beijing JIAGE LILUN YU SHIJIAN  
[PRICE: THEORY AND PRACTICE] in Chinese No 2,  
20 Feb 90 pp 22-23

[Article by Gong Renfu (1712 0088 1133), Deputy Director of Shanxi's Price Bureau, and Zhong Zhi (0022 3112): "Promoting Price Reform Under the Precondition of Controlling the Overall Price Level"]

[Text] The primary goal of rectification and improvement, which we hope to basically accomplish in three years or longer, is to lower the rate of inflation and slow the increase in retail prices gradually to less than 10 percent. It is a glorious and awesome task the Party Central Committee has assigned to the party and the nation. Achieving this goal is critical to the promotion of social stability and unity, the guarantee of thorough reform, and the realization of sustained, steady, and smooth economic development.

If the overall price level is to be basically stable, the price of most commodities in the market must be reasonable. If the issue of unreasonable prices is not resolved, prices may seem stable on the surface but are in fact hiding some unstable elements, and if this is allowed to go on, it will obstruct or even damage commodity production and circulation and in turn will ruin the material foundation of price stability and will cause prices to fluctuate. For some time now, because of the overheated economy and excess demand, many commodities have been in short supply in the market; the price signal is distorted, the product-mix is out of line, and counterfeits and bad products swamp the market despite of repeated censures. Besides lax management, irresolute crackdowns, and other factors, the unreasonable prices are also responsible for these phenomena. The price problem must be solved and comprehensive price reform implemented in a planned and step-by-step way amid rectification and improvement, first by eliminating the factors that cause

inflation. But it is also important to select, provide leadership, and implement in installments, local reform measures that not only facilitate rectification and improvement but also give impetus to the readjustment of the industrial structure and help stabilize prices. Today, the economy is stabilizing, market tension has eased, sales of many commodities are softening, and together with the macroeconomic climate of rectification and improvement, we have the perfect opportunity. When passenger fares were raised last September, there was no subsequent market disturbance. This demonstrates that we have picked the right moment and we have the right policy which the masses find acceptable.

Currently, the main economic structural problems lie in the weak agricultural sector, the faltering energy and raw material industries, and the lagging communication and transportation sectors. Therefore, it is important to tilt the price reform toward areas dictated by the industrial policy and to conduct feasibility studies. Agriculture is the foundation of China's economy. Changes in relative prices in recent years indicate that there are new problems in the exchange price between some staple agricultural and industrial products which have distorted their comparative advantages. Therefore, we should focus on grain price and raise the purchase price of other staple agricultural products gradually. Since 1988, in conjunction with the restructuring of the grain purchase and marketing system, Shanxi Province has been gradually reducing its parity-price grain purchase proportionally while increasing purchases at negotiated prices. In 1989, higher negotiated grain price raised the peasants' income by nearly 200 million yuan. Meanwhile, the province has successfully reduced the amount of parity-price grain sales while keeping the price of the workers' and residents' fixed grain ration unchanged. This not only conserved grain consumption but also eased the government's financial burden and boosted the aid-agriculture funds. In addition, the state has announced its intention to raise the purchase price of cotton and oil crops to encourage the peasants to increase production. With respect to energy, raw materials, and communications and transportation, we need to refer to their reasonable social cost and put their prices in line one at a time and gradually narrow the price gap between fuel and raw materials and processed goods. We need to narrow the scope of "double-track pricing" of capital goods. In the near-term, we should find ways to straighten out and merge the prices of certain capital goods and commodities, such as sugar, salt, cotton yarn, and cotton cloth, which are in fact priced under a dual-track system, and we should adopt effective measures to narrow the gap between the two sets of prices if dual-track pricing cannot be abolished soon.

In order to guarantee successful price rectification and reform, we must take the following steps to minimize the effects of structural adjustments which tend to raise the overall price level: (1) We must make a realistic effort to rectify circulation order, prohibit reckless price-raising, and straighten out the wholesale operations that handle

grain, cotton, coal, petroleum, steel, and other important resources and scarce commodities and put them under planned management. The state-run and collective enterprises should have an oligopoly or special franchise and act as the media of communication for keeping the individual wholesalers in line. The relevant departments should also set up and perfect various differential price systems and perfect or modify certain price policies and pricing methods to curb reckless price increase and price increase under false pretexts. (2) We must make a realistic effort to strengthen management of market prices and concentrate the power to manage prices. In recent years, because of the erroneous guiding ideologies of one or two leaders, we have mistakenly curtailed the planned economy and exaggerated the market economy; as a result, some commodity prices have been out of hand in the market. In addition, diverse pricing practices have complicated management, and since we have few effective regulation and control measures, it is essential that we conduct a comprehensive, systematic round of consolidation and rectification to delineate the price management power and the division of management responsibility, and in view of the aim to put more emphasis on planning during this adjustment period, we should concentrate the price management power somewhat and stress the seriousness of planned prices, and we need to perfect the guidance-price management methods. Prices already decontrolled should remain decontrolled and be further enlivened, but if necessary, we should make use of the main channels skillfully to regulate the price of important commodities if they are unstable, or we can impose a ceiling price or set up a price increase application system and so on to guide and manage them, so as to keep market prices down and protect the interests of the producers and consumers alike. We should limit any new measures to raise prices and prohibit certain unauthorized price increases. (3) With respect to price management methods and measures, we should avoid administrative measures as much as possible but adopt more economic and legal measures, such as setting up a price regulation fund, to enhance our macroeconomic control and regulation capability. Or as another example, we should promulgate a "Price Law" based on the "Price Management Regulations of the PRC" promptly and put price management on a legal track, and we should tighten supervision and inspection and rely on the law to keep prices in line. (5) We should combine our "double increase and double economy" effort with enterprise internal reform and set up a standardized, reasonable constraining mechanism to ensure proper enterprise pricing behavior and enhance enterprises' ability to digest. First, instead of focusing on scale and speed and making a profit by raising prices, we ask that enterprises make a genuine effort to improve economic efficiency and become better enterprises. In today's market, enterprises can no longer raise prices to make a profit. They must strive to introduce new styles and more varieties, improve product quality, and lower the profit margin but increase sales. Only then can they end the present market stagnation and turn passivity

into initiative. Second, we should strengthen the two-way control of enterprises' cost and profit. Third, we should set penalty prices on high energy-consumption, high raw material-consumption products. Lastly, based on the basic price management rules and regulations, we should set up and improve various price management systems. We should set up a price approval (certification) system for crucial products which have been decontrolled.

### Prerequisites for Further Price Reform Outlined

90CE0075B Beijing *JIAGE LILUN YU SHIJIAN*  
[PRICE: THEORY AND PRACTICE] in Chinese No 2,  
20 Feb 90 pp 8-9, 7

[Article by Yang Lu (2799 7627): "Two Important Matters in Furthering the Price Reform Process"]

[Text] China's rectification and improvement efforts produced convincing results in 1989. Accompanying the economy's continuous growth, society's total supply and demand conflict eased and the increase in market prices slowed. For the year as a whole, the retail price index rose 18.1 percent, slightly less than 1988's. The national economy has taken a precious step toward a benign cycle.

But we should also realize that we have not been very successful in reaching the deep-lying goals of rectification and improvement. In particular, the slowing monthly increase in product prices is due, first, to government subsidies; second, to inflation-proof savings; third, to administrative coercion. None of these measures can be sustained on a long-term basis, and as soon as they are eased, prices which have been stabilized at a fairly high level will change. For this reason, we must continue to tighten control over prices this year in order to "basically accomplish the goals of rectification and improvement in three years or longer" and "gradually lower the rate of inflation and strive to gradually reduce the rate of retail price increase nationwide to below 10 percent," as urged by the "CPC Central Committee's Decision on Further Rectification and Improvement and Deepening the Reform Process." On the other hand, proper readjustment of the economic structure, which is fundamental to rectification and improvement, should include prompt readjustment of those product prices which are out of line, and this no doubt will affect the magnitude of price increase. These circumstances demonstrate that further price reform is faced with a complicated situation. Every step we take requires careful consideration of its impact on various goals of rectification and improvement.

In view of the present economic situation, there are two things we must deal with before furthering the price reform process:

The first is to determine the goals of price reform and to set a proper course of action and to coordinate the price reform with the entire rectification and improvement process.

#### 1. The goals of the restructuring of the pricing system.

(a) The primary goal of the restructuring of the pricing system should be to eliminate the dual-track system and readjust those prices that are out of line, so that they approximate the value of the goods, reflect supply-demand conditions, comply with state policies, and meet international standards.

(b) In pricing mineral products, chronic shortage mandates that the value of those resources should include both differential rent and absolute rent. For some products, because of current shortages, prices should also include a supply-demand profit which is above the average profit.

(c) Theoretically, agricultural products should be priced as a scarce resource, but the availability or scarcity of agricultural products cannot be measured by the standards as mineral products. China is a vast country; conditions in the east, west, north, and south are very different as are conditions in the plains, the highlands, and the mountains. If different crops are planted to suit local conditions, it will change the availability of those resources dramatically, and the measurement of their availability will also change. In levying taxes, Class II differential rent which pays for land improvement and water conservancy projects and other supplementary investments should be separated from Class I differential rent. In addition, some regions are economically better-developed than others; the relative cost of agricultural labor vary significantly among different regions, and this plays an important role in determining the price of the same agricultural product in different regions. Therefore, in practice, it is very difficult to price agricultural products simply on the basis of their being a scarce resource. We can only try to maintain reasonable price parities between industrial and agricultural products and at the same time balance the comparative advantages of different crops in different regions to keep the internal price relations among different agricultural products reasonable.

(d) In designing a price program, we can use the theoretical price that reflects the value of the commodities which we derive from the input-output schedule as a reference point and add the supply-demand elements to determine how prices should be readjusted. In setting the price of down-stream products, we can consider two steps: First, minimize the chain-reaction and avoid raising the price of mid- and down-stream products, and meanwhile, we should emphasize "double increase and double economy" and enhance enterprises' ability to digest, so that enterprises can get on track to improve economic efficiency sooner. Second, on the premise that our timing is right, we should proceed to adjust the price ratios.

#### 2. Procedure in restructuring the price system.

The restructuring of the price system is primarily a process of readjusting the price structure. Today, the distorted price system is hampering the sustained,

steady, and smooth development of the national economy, obstructing the optimal allocation of the limited resources, and preventing any improvement in economy efficiency. Therefore, it is my opinion that it will not hurt if we enlarge the scope of structural readjustment of prices and centralize our efforts to straighten out the price system as soon as possible, and we can maintain basic stability after we have smoothed out all the commodity price relations. This approach is better suited to the needs of sustained, steady, and smooth economic development. If we hold back on the price adjustment and proceed in small steps over a period of time, we can minimize the impact of the price adjustments, but there are several clear disadvantages: First, we will prolong the price distortion and continue to obstruct the optimal resource allocation and hamper the improvement in economic efficiency and in turn prevent sustained, steady, and smooth economic development. Second, small but yearly price increases, or even quarterly or monthly price increases, do very little to improve the price structure. Third, piecemeal and frequent price adjustments make the consumers nervous and will not be appreciated by the people.

Where do we begin to restructure the price system? Most disputes have been over the question of whether we should adjust the price of industrial means of production first or the agricultural product purchase price first. Personally, I believe in adjusting the state-set prices of industrial means of production and means of communication and transportation first. As for the purchase price of agricultural products, I suggest lowering the purchase price of fruits and aquatic products and other commodities which have been decontrolled and are over-priced as well as the extra-plan, market-regulated price of those commodities which are normally subject to price management. We should consolidate and weed out some of the intermediate links to lower the price of agricultural means of production by the time they reach the peasants' hands. In this way, we increase the comparative advantage of grain, cotton, oil crops, sugar crops, flue-cured tobacco and other crops which are now under-priced, and we can raise the planned prices of grain, cotton, oil, sugar, and tobacco later, if they are still under-valued. This approach is better because raising the price of industrial means of production is economically more efficient than raising the price of agricultural products and has less impact on retail prices and on the government's revenue and expenditure.

3. The goals of the restructuring of the price management system.

In recent years, the restructuring of the price management system has gone a bit too far, leaving too many prices to market regulation. China has a planned commodity economy. Planning means using the law of value and regulate the pace of development deliberately. Therefore, any commodity that should or can be put under planned management must be put under planned management. This refers mainly to the important staple commodities. Such commodities may be few in number,

but they account for a large percentage of the total output value. Planned management may be in the form of mandatory planning or guidance-oriented planning; there are state-set mandatory prices as well as price guidelines. Most planned management should be guidance-oriented, and prices should adhere to the state's guideline. So far as the output value is concerned, all prices and plans should primarily be in the form of state price guidelines.

In recent years, under a dual-track pricing system where state-set prices have been too low and market-regulated prices have been soaring, variable prices have been fluctuating violently. The fact of the matter is, if we readjust prices properly and stabilize them, even if supply and demand are not balanced, prices need to be at most a few percentage points above normal to double the profit of a commodity, if it has a high fund-turnover rate, and even for trades with slow fund-turnover, profit can jump by more than a few percentage points, and this enables enterprises to tolerate any kind of price adjustment. Raising prices excessively and multiplying profit several times over will only lead to reckless expansion and entice even those enterprises with backward and even obsolete facilities to get into production, which will only waste resources and lower efficiency.

A second matter of concern is the need to tighten control over prices and to refrain from introducing any more measures to raise prices. Currently, we must accomplish the following:

1. We must continue to control the price index and tighten the price-increase examination and approval process and introduce as few new measures to raise prices as possible. Meanwhile, we must conduct careful cost analysis, trace and seek out the causes of higher cost of enterprises which have requested a price increase, and help enterprises deal with the soaring raw material prices.

2. We must continue to rectify market order and stand firm on eliminating companies in the circulation link already identified by the management departments at the central level to be non-essential. Meanwhile, we should stipulate that each city-level county should have no more than one wholesale link for a commodity. We should impose a ceiling on the margin between selling and purchasing prices, the margin between wholesale and retail prices, and on regional price differences.

3. With respect to agricultural product prices, the state has decided to raise the purchase price of cotton and oil crops. This is necessary. But there should be no more price increase measures. The present agricultural price problems to a large extent are caused by the high price of products already decontrolled. Those prices should be lowered to keep the price parities among agricultural products in line. This too will facilitate sustained, steady, and smooth development. We do not necessarily have to raise the price of goods that are under-valued.



4. Today's ex-factory price of coal is too low, and the coal-producing industry is losing money. Meanwhile, there are too many middlemen who raise prices and reap a profit whenever the goods change hands. The transportation links too are charging exorbitant fees, and as a result, prices are sky-high in the local markets. We must eliminate the redundant middlemen and raise the state-set, ex-factory price, but we should not raise, and we may even want to lower, the CIF price. Today, the state has decided to put the centrally allocated coal and minerals as well as coal that are shipped out of the province by rail under unified management. This is necessary. If rectification of the long-distance trucking industry does not restore order in that industry, it too should be put under unified management.

5. Crude oil's ex-factory price is too low. Most oil fields are losing money. Meanwhile, the product tax on refined petroleum products is very high. For example, the tax rate on gasoline is 40 percent, kerosene, 35 percent; lubricants, 35 percent; naphtha, 35 percent; diesel, 10 percent. It is my opinion that we need not change the price of refined petroleum products, and we should lower the product tax rate to three percent. Meanwhile, we should raise the state-set, ex-factory price of crude oil and shift most of the petrochemical enterprises' taxes to the oil extracting enterprises. At the same time, we should readjust the contract base to keep the oil extracting and oil refining enterprises' retained profits and the government's revenues unchanged. In this way, we can help the oil refineries improve management and administration and eliminate the smaller refineries and redundant oil refining facilities. As for the unreasonable price ratio between different refined petroleum products, we can tackle the problem later.

#### **Review of Gansu's Environmental Protection Efforts**

90WN0061A Lanzhou GANSU RIBAO in Chinese  
3 Apr 90 p 1

[Article by Ma Xiaojun (7456 2556 6511): "Our Province Has Implemented 457 Environmental Protection Actions in Four Years—Protect Resources and Prevent Pollution; Sending Warmth to the Masses"]

[Text] Every level of our provincial government structure has shifted toward resolving the serious pollution problems and those environmental matters that have so strongly concerned the masses. In the most recent four years, the province has carried out 457 actions on environmental issues, evoking warm feelings among the masses.

To make environmental protection work, the province annually published the assessed results of the "military directives" that had been issued to each local, municipal and regional jurisdiction. As the focal point for carrying out preventive measures against atmospheric pollution, it established a restrictive area of over 146 square kilometers against smoke and dust. Last year, Qinyang District closed or banned 192 establishments producing

kerosene using old methods, protecting resources as well as preventing environmental pollution. For three successive years, the Linxia Muslim Autonomous District made ecological agriculture its top priority, receiving the United Nations Environmental Administration's approval. Paiyin's Environmental Protection Agency took as its 1989 mission the rebuilding of the Paiyin Cloth Weaving Factory's old boiler located at the center of the city which had severely plagued the city's population for decades. Two million RMB [renminbi] was secured from the factory to build a new boiler, eliminating a major pollution source. The province's environmental protection authorities effectively restricted the pollution of the Huang He; in 1989, it chose for scientific study the polluting circumstances of 24 of the top polluting enterprises along the Huang He banks and conducted an in-depth investigation, proposing control measures. Last year, the province invested 20 million to complete 15 actions before their deadlines to reduce more than 60,000 pollutants annually, reaping 650,000 RMB in economic benefits.

### **PROVINCIAL**

#### **Industrial Production Rises in Inner Mongolia**

SK1006132090 Hohhot NEIMENGGU RIBAO  
in Chinese 9 May 90 p 1

[Summary] The industrial production of Inner Mongolia Autonomous Region began to rise after a fall in April this year. According to the newest statistical data compiled by the regional statistical bureau, industrial enterprises at or above the township level across the region realized 1.834 billion yuan in the total output value in April, a 1.95 percent increase calculated in term of comparable prices over the figure of March this year and a 1.57 percent increase over the same month of 1989. Of these industrial enterprises, those run by the state realized 1.530 billion yuan in the total output value, a 2.13 percent increase over the same month of 1989. Those run by collectives realized 293 million yuan in the total output value, a 1.63 percent decrease over the same month of 1989. The large- and medium-sized enterprises across the region realized 995 million yuan in the total output value, a 3.96 percent increase over the same month of 1989. Those of heavy industry realized 1.067 billion yuan in the total output value, a 7.05 percent increase over the same month of 1989; and those of light industry realized 766 million yuan in the total output value, a 17.21 percent increase over the figure of March this year.

#### **Jilin Notes Achievements in Industrial Production**

SK1006134090 Changchun Jilin Provincial Service  
in Mandarin 0930 GMT 5 Jun 90

[Summary] Jilin Province realized more than 3 billion yuan in the total industrial output value in May this year, a 3.5 percent increase over the same period of 1989. Among those which fulfilled their state assignment for



industrial production in May are the localities of Changchun, Jilin, Siping, Tonghua, Liaoyuan, Baicheng, and Yanbian, as well as the departments and bureaus of machine-building, metallurgy, petrochemicals, light industry, forestry, textile industry, medicine, electric power, coal industry, electron, building materials, and of reform-through-labor administration.

The commercial front across the province spent 290 million yuan in purchasing products in May, accounting for 116 percent of their purchase plan, and sold commodities worth 340 million yuan, accounting for 117 percent of their sale plan. By the end of May, the number of new products across the province reached 1,150, which realized 630 million yuan of output value and more than 100 million yuan of profits and taxes.

### Shenyang Institutes Economic, Social Reforms

HK0106122990 Beijing JINGJI CANKAO in Chinese  
3 May 90 p 1

[Text] The city of Shenyang, which was lauded as the testing ground for comprehensive reform, has been continuously engaged in in-depth reform on problems of economic rectification that call for urgent solution. Over the past year, they have made a new breakthrough and progress in various ways, such as setting up a social security system, strengthening the collection of taxes on trade fairs of self-employed businessmen, and perfecting the enterprise leasing system and contract system.

The establishment of a social security system was one of the focal points of Shenyang's in-depth reform last year. In January last year, the Shenyang city government organized and set up the city life insurance company. To date, some 1,300,000 active and 410,000 retired workers and staff members in the city have taken part in group insurance, covering 97 percent of the total. The total premium collected for all kinds of insurance reached 476 million yuan last year, with payments of 400 million yuan. Thus, all the retired workers and staff members were able to receive monthly pensions without being affected by the enterprise business performance, and the life of the workers and staff members of policy-related money-losing enterprises could be guaranteed.

The establishment of an effective system for the collection and management of taxes from self-employed businessmen is also a major reform for Shenyang to solve the problem of tax evasion by self-employed businessmen and unfair social distribution. After working hard in numerous ways, the Shenhe district of Shenyang City has initially established a system for the collection and management of taxation for self-employed businessmen, which coordinates the collection, coordination, and protection of taxes and which integrates professional tax collectors and masses. In state-owned and collective wholesale enterprises, as well as communication and transportation, materials, and financial departments, 510 units responsible for the delivery of paid taxes have been set up. Tax coordination teams have been set up in

318 neighborhood committees and 29 markets of various sizes in the whole district. The number of tax-coordinating staff is over 7,000. All sectors of society and more and more people have come to show concern for tax collection, with tax-evasion cases reported by the masses doubled and redoubled. Last year, there were 21 tax-evasion cases of over 10,000 yuan each that were inspected and dealt with in the Shenhe District, 80 percent of which were reported by the masses. Tax evasion by self-employed businessmen has markedly dropped. According to a sample check conducted by the relevant department using the comparable method, the scope of tax evasion last year dropped from 79 percent in 1987 to 35 percent last year, and the amount of taxes collected from self-employed businessmen in trade fairs reached 22.79 million yuan, an increase of 54 percent over the previous year.

Shenyang City has also taken new strides in the reform of the housing system. Through the development of housing cooperatives, which pool capital from the public and private sectors and which raise funds from various sources for the building and sale of houses, they have completed the transition to private ownership and commercialization of housing. By last February, the number of housing cooperatives in the whole city had increased to 13, with a membership of 12,000 people. They absorbed individual house-purchasing funds and residential housing deposits to the tune of 23.88 million yuan, and built houses with a floor space of 120,000 square meters.

With respect to certain reform measures which have proved effective but which have obvious defects, Shenyang City has put in more efforts in deepening, refining, and perfecting coordination in compliance with the requirements of economic rectification. Although the enterprise leasing operation which they have taken the lead in promoting nationwide has been showing signs of defects in actual practice, such as being responsible for profits and not responsible for losses, the lease-holder receiving excessive personal income and engaging in short-term conducts, they have not given it up, but have energetically summed up both experiences and lessons, improving and raising them by developing the advantages and eliminating the disadvantages. They are now focusing on the promotion of all-staff leasing operation and collective leasing. After instituting the all-staff leasing by mortgage against risks, the Shenyang Electric Wire Plant, which has a staff of 2,000 people, has raised mortgage funds against risks to the tune of 470,000 yuan, which is close to half of the factory's net value of fixed assets, and is capable of undertaking operational risks. Given an unfavorable economic environment last year, the plant created 6,500 yuan in profit and tax per capita, an increase of more than three times when compared with what it was before the institution of all-staff leasing. At present, there are over 2,000 medium-sized and small enterprises which have instituted the leasing operation in Shenyang City.

**Xinjiang Focuses on Energy, Petrochemical Projects***OW0906012190 Beijing XINHUA in English  
0737 GMT 8 Jun 90*

[Text] Urumqi, June 8 (XINHUA)—The Xinjiang Uygur Autonomous Region is focusing on key capital construction projects in energy development, petrochemicals and transportation.

A regional official said these projects will play an important role in regional economic development upon completion in a few years.

According to the official, the 560,000-square kilometer Tarim Basin in southern Xinjiang has become a hot spot for the nation's petroleum industry. Geologists have already sunk 36 wells.

The China Oil and Gas Corporation has invested 1.5 billion yuan (about 319 million U.S. dollars) in oil exploration this year.

Construction of other projects is well under way. The Beijiang (north Xinjiang) Railway is near completion along with a thermal power plant with generating capacity of 800,000 kilowatts and two petro-chemical projects.

**FINANCE, BANKING****Construction Bank To Issue Bonds for Major Projects***OW3105103190 Beijing XINHUA in English  
0613 GMT 31 May 90*

[Text] Beijing, May 31 (XINHUA)—China will issue bonds worth two billion yuan for its major construction projects in the second half of this year, the People's Construction Bank of China said today.

The funds raised via the bond issues will be invested in the state's major enterprises in the electricity, oil, iron and steel, and petro-chemical industries.

Over the past four years the Construction Bank has acted as an agent of governmental departments for bond issues, raising 14.1 billion RMB [renminbi] yuan for major state construction projects.

**Shanghai Develops as Stock Exchange Center***HK0906051990 Beijing JINGJI CANKAO in Chinese  
15 May 90 p 1*

["Dispatch" by reporter Bai Guoliang (4101 0948 5328): "Shanghai Becomes China's Stock Exchange Center"]

[Text] Shanghai—Shanghai has gradually become China's stock exchange center. The China Industrial and Commercial Bank set up its stock exchange information network, involving some major cities, on 12 May.

Participating in this information network are 27 cities and 17 provinces nationwide. It will play an important role in easing the channel conveying stock exchange information, halting black market dealings, stabilizing finance, and promoting the shaping of a unified national stock market.

Shanghai was the first place to open a stock market in China, it has the greatest variety of stocks available on its stock exchange, and a transaction volume that reigns first in the country. Presently, Shanghai's stock market has begun to affect the whole country, with operational ties with some 60 transaction spots in 27 provinces and cities, including Hainan Island and Urumqi, and has the capability for dealing with stocks of various categories in China. Based on bankers' estimations, in 1989 alone, Shanghai's stock exchange brokers "absorbed" national bonds issued by other provinces with a turnover of 300 million yuan, and "sold" bonds in various categories issued in Shanghai with a turnover of approximately 100 million yuan.

Based on the figures provided by relevant departments, the transaction volume of Shanghai's stock market has been on the rise since the beginning of 1989; at year end, the annual transaction volume was 803 million yuan, accounting for 50 percent of the nationwide total transaction volume, up by 1.63 time from 1988, of which, transaction volume of state treasury bonds was 760 million yuan; that of stocks was some 10 million yuan; and that of bonds in various categories approximately 30 million yuan.

Presently, an increasingly greater number of Shanghai residents are becoming involved in investment in securities. Based on a 1989 annual report on Shanghai's stock exchange, presently, there are some 50,000 stock holders in Shanghai, more than double that in 1988. In 1989, the number of stocks in exchange accounted for 23.27 percent of the total volume of stocks on the market, while it was only 15 percent in 1988. This shows that in every 100 stocks in residents' hands, 23 of them have found their way onto the stock exchange. It is not simply for dividends and bonuses that they invest in stocks, but for profits in stock transaction and appreciation. Despite the plunging of Shanghai's stock prices and a weak market in 1989, the majority of stock holders did not dump their stocks in panic, but had full confidence in the situation; they held their purchases, waiting for the best opportunity to sell. At the same time, a considerable number of investors turned into optimistic "buyers." Consequently, 1989 saw some 10,000 transactions on Shanghai's stock market, with a volume of approximately 130,000 shares and a turnover of some 11 million yuan, up by 15 percent, 84 percent, and 25 percent from 1988 respectively. That showed the Shanghai residents' rather strong sense of stocks.

However, Shanghai's financial experts pointed out that there was still room for improvement in the stock market. For example, the varieties on the market seem to be waning, the varieties of securities available on the

market were 29, of which seven fell into the category of stocks, four in the category of national treasury bonds, and 18 in the category of various bonds. The varieties of stocks in circulation were limited, and fewer were available on the market. Over the past two years, there was only one new variety of stock that went on the market, this was issued by a joint-stock firm in suburban Shanghai. The condition by which few varieties of stocks are on the market has had certain psychological pressure on the stock holders, with the stock exchange scope being restricted. National treasury bonds and other bonds are in a similar condition.

In addition, the approach of the stock exchange needs be completed and perfected. Experts pointed out that the formulation of some legal documents are desirable such as a "decree on stock exchange," "decree on joint-stock company," and "regulations on administration of stock brokers" to protect the interests of stock holders, and the two sides concerned in transactions, to maintain the normal order of the market.

## MINERAL RESOURCES

### Copper Output Increases 11.4 Percent

HK3105035890 Beijing CHINA DAILY in English  
31 May 90 p 2

[By staff reporter Ren Kan]

[Text] China's copper output enjoyed an increase of 11.4 percent on an annual basis during the first four months of this year.

Total output reached more than 186,000 tons for the period, said an official with the China National Nonferrous Metals Industry Corporation (CNNC).

Key copper enterprises developed steadily in the period, with their output up by 11.6 percent on the same period last year.

Growth in the production of local enterprises also hit 11 percent during the first four months.

The showing has consolidated the corporation's ambition this year to produce more copper than 1989's 540,000 tons.

The official attributed the increased production in the four months to favourable supplies of raw materials and electricity.

The output of copper ore had increased by 5.6 percent compared with the same four months last year, he said, adding that imports of ore had also been going smoothly.

The corporation had signed contracts to import 80 percent of the corporation's copper ore needs for this year, he said.

If the imports were blocked, the output of copper would surely fall since China lacked concentrated ore, he added.

The official said the copper industry had this year enjoyed its best electricity supply for years thanks to the government's support policy.

Not one factory had stopped production due to power shortage, he said.

Although the copper industry had also met cash shortages and a slumping market during the past four months, the official said, "we have jumped over the barriers by coordination between copper enterprises."

While the price of many other nonferrous metals had kept on declining, the official said, that of copper had even enjoyed an increasing trend.

Copper has been in short supply in China, with the industry unable to meet demand from the different sectors of the economy.

The country had thus determined to see a major expansion in the industry during the last decade of the 20th century.

In the coming years, the corporation will concentrate on the projects to expand two copper mines in China's largest copper producer in Jiangxi Province.

One project is the third stage of the construction of Dexing Mine, the country's largest.

On completion of the project in 1993, the mine will be capable of turning out 90,000 tons of copper ore a day.

The corporation is also to update a Sino-Soviet cooperative project in Shanxi Province.

## INDUSTRY

### Industrial Output Slows During January-April

OW0306202990 Beijing XINHUA Domestic Service  
in Chinese 0708 GMT 29 May 90

[Text] Beijing, 29 May (XINHUA)—According to the six economic indicators announced here, the total amount of outstanding bank loans at the end of April was 1,269.7 billion yuan, up 28.8 billion yuan from the beginning of this year. This increase in bank loans has a definite effect in helping to boost industrial output, easing the sluggish market, and supporting agricultural production.

The six economic indicators, jointly released by the State Statistical Bureau, the State Planning Commission, the Ministry of Finance, and the People's Bank of China, imply that between January and April the total social demand has been brought under control, the scale of investment is generally at the same level as last year, and the rate of the wage increase has slowed.

According to briefings, between January and April fixed assets investment made by the public sector was 30.3 billion yuan, and was basically the same as last year. Compared to the same period last year, investment in 15 provinces, autonomous regions, and municipalities has gone up. This mainly is because of an increase in the number of local projects.

The total wages of the nation's workers from January to April was 83.1 billion yuan, up 8.6 percent from the same period last year. After making adjustments for price factors, the actual increase was 4.6 percent. A total of 29 regions registered growth over the previous year with Hainan Province recording the highest rate.

Because of the sluggish market, the rate of increase in industrial output is lower, and economic returns from industries have not improved. The output value per worker in state-owned independent accounting industrial enterprises between January and April was 5,944 yuan, a drop of 1.8 percent against last year. The output value of workers in 18 regions of China showed signs of sliding. The cost overrun of products in comparable terms has continued all around, and the rate was 6.9 percent. The proportion of profits and tax in industrial enterprises that is generated by sales has dropped across the board, and was generally lower in 29 regions of China compared to last year.

### Official Says Industrial Production Improving

*HK0506152090 Hong Kong WEN WEI PO in Chinese  
22 May 90 p 3*

[Report by WEN WEI PO Guangzhou-based reporter: "Production Situation in Major Industries Is Fine—Analysis Made by Zhao Weichen, Vice Minister of Production Commission under the State Council"]

[Text] Recently, at the sixth annual meeting of the Society of Ideological and Political Work for Workers in Guangzhou, Zhao Weichen, vice minister of the Production Commission of the State Council, made a speech on the national economic situation. He pointed out that according to the present situation, although some industries are still facing difficulties, generally speaking, the measures for improving the economic environment and rectifying the economic order have achieved obvious results.

Zhao Weichen pointed out: Apart from the machine-building, textile, and building material industries which are still facing some temporary difficulties, the production situation in all major industries throughout the country is good, and continuous increases have been recorded in six aspects in the industrial field as a whole. First, energy production has been continuously increasing, and the shortage in the supply of coal and electricity has been mitigated. In the first four months of this year, the output of crude coal reached 320 million tons, or increased by 8.1 over the same period of last year; and the output of electricity reached 194.8 billion kilowatt-hours, or increased by 7.1 percent. Second, raw

material production has been continuously increasing. In the first four months of this year, the output of steel reached 21.5 million tons, or increased by 11.1 percent over the same period of last year; and the output of steel products reached 16.6 million tons, or increased by 9.9 percent. Third, the production of nonferrous metal has been continuously increasing. In the first four months of this year, the output of 10 kinds of nonferrous metal reached nearly 700,000 tons, or increased by 10.2 percent over the same period of last year. Fourth, fertilizer production has been continuously increasing. In the first four months of this year, 6.28 million tons of chemical fertilizer were produced, marking an increase of seven percent over the same period of last year. Fifth, the production of ethylene and sodium carbonate has been increasing steadily. In the first four months of this year, the output of ethylene reached 520,000 tons, or increased by 4.7 percent over the same period of last year; and the output of sodium carbonate reached 1.06 million tons, or increased by 20.3 percent. Sixth, production in light industry has been continuously increasing. Although production in this field declined in January and February, but production increased in March by 2 percent over the same period of last year and continued to increase in April by 1.9 percent.

The situation in the field of foreign trade is also satisfactory. In the first four months, the foreign exchange earnings from exports reached \$15.6 billion, or increased by 14.6 percent over the same period of last year. The upward tendency was kept every month in this period. The situation in the export of electronics products was particularly gratifying. In the first quarter of this year, the foreign exchange earnings from the export of electronics products reached \$2 billion or increased by 50 percent over the same period of last year. The situation in capital construction also gave expression to the results in the implementation of the "biased" industry policy for economic adjustment and rectification. In the first quarter of this year, the investment in energy industry amounted to 6.8 billion yuan, or increased by 11.2 percent over the same period of last year; and the investment in transport and telecommunications amounted to 2.3 billion yuan, or increased by 23.2 percent. At the same time, the production situation in most provinces and municipalities, most trades, and most enterprises is also good. In the first four months of this year, 17 provinces and municipalities increased their industrial production. Among them, Jiangsu's industrial output value reached 64.4 billion yuan or increased by 3.2 percent; Shandong's industrial output value reached 47.3 billion yuan or increased by 5.3 percent; and Guangdong's industrial output value reached 46.4 billion yuan or increased by 5.5 percent.

Zhao Weichen also worked in Guangdong before. This time, he returned to Guangdong and felt inspired to see Guangdong's development. At the meeting, he said that I still wished to revisit this province and see more development there. The more I saw, the more I felt that the achievements of reform were great. He summarized

the impression Guangdong had left in his mind into eight "great": 1) Guangdong has a great determination for carrying out reform and opening up; 2) Guangdong has achieved great results in reform, opening up, and economic adjustment and rectification; 3) The people in Guangdong enjoyed great benefit; 4) The urban and rural look has undergone great changes; 5) There is a great momentum in production development; 6) Guangdong's attractiveness and influence are great; 7) Guangdong has introduced a great amount of foreign funds; and 8) a great deal of things can be learned from Guangdong.

In his speech, Zhao Weichen also said: At present, the State Council is taking more effective measures for furthering the economic adjustment and rectification and developing production. One of these measures was the establishment of the Production Commission. The current situation shows that these measures are feasible and effective. It is expected that production situation in the whole country will be further improved in the second half of this year, and the industrial output value will also increase as compared with in the same periods of last year.

#### Industrial Production Rises in May

OW1006121190 Beijing Domestic Service in Mandarin  
0930 GMT 8 Jun 90

[Text] The latest data released by the State Statistics Bureau shows that China's industrial production continued to increase in the past two months. In May it rose by 4.2 percent to 169 billion yuan, with daily output climbing 3.1 percent over the previous month's figure.

According to the data, in January and February this year, only 16 areas registered increases in industrial production, but the number rose to 18 in March, 19 in April, and 23 in May. Those areas registering increases of over 10 percent included Beijing, Fujian, Shandong, Guangdong, Hainan, and Yunnan.

According to an analysis, the country's industrial production continued to increase in the past three months, rising 3.2 percent over the same period of last year. Viewed from the increase in industrial production, the increase in heavy industry has been quicker in light industry; rural industry has picked up quickly; other industrial sectors have also developed quickly, playing the most important role in the upturn of industrial production as a whole.

The State Statistics Bureau notes that, judging from the present situation, following the increase in the growth of industrial production, the focus should be on the marketing of products in order to accelerate the improvement of the business environment for production enterprises. In particular, careful and orderly measures should be adopted to enliven the consumer goods market. At the same time, as industrial production is increasing, it is necessary to step up structural readjustment in order to gradually upgrade economic efficiency.

#### Chemical Industry Tops Production Figures

HK1206055790 Beijing CHINA DAILY in English  
11 Jun 90 p 2

[Text] The chemical sector continued to lead China's industrial production in May with a growth rate of almost 10 percent, according to the Ministry of Chemical Industry.

The sector's output last month was valued at nearly 7 billion yuan (\$1.5 billion), 9.7 percent more than the same period last year, CHINA DAILY has learned from a report issued by the ministry.

Earlier reports from the State Statistical Bureau showed that national industrial growth was 4.2 percent in May on a year-to-year basis.

The raw material and agriculture-related chemical industry is the sector Chinese Government has encouraged despite nationwide retrenchment.

The encouragement aims to ensure raw material supplies for other industries and production of sufficient chemicals for agricultural use.

Both industrial and agricultural use chemicals have been in short supply in China in recent years.

The chemical industry began to lead national industrial production at the beginning of this year, enjoying a four percent increase in the first quarter from the same period last year. National industrial growth, however, was zero during the period.

And chemical manufacturers continued to push production up by 8.3 percent in April when national industrial growth was only two percent.

The ministry said chemical manufacturers had produced a total value of 30.77 billion yuan (\$6.55 billion) during the January to May period.

The figure represents 41.1 percent of this year's total production target of 74.8 billion yuan (\$16 billion) set by the ministry to attain a six percent increase on last year.

Chemical producers turned out a total of 37.9 million tons of chemical fertilizers during the first five months of this year, an increase of 8.4 percent from the same period of 1989.

Production of pesticides, amounting to 99,000 tons during the January-May period, increased by nearly 18 percent. The figure was 47 percent of the annual production plan of 210,000 tons.

But the nationwide market slump and shortage of purchasing funds meant that 4.47 million tons of chemical fertilizer was stockpiled in factories by the end of May, 1.5 million tons more than at the beginning of this year.

### Growth Expected in Synthetic Fiber Industry

OW1705145790 Beijing XINHUA in English  
1202 GMT 16 May 90

[Summary] Beijing, May 16 (XINHUA)—At the Third Beijing International Conference on Synthetic Fibers, Ji Guobiao, textile industry vice minister, said that China's synthetic fiber industry will grow at an annual rate of five to seven percent during the next decade. By the year 2000, China's synthetic fiber output will be 2.8 million tons, up from 1.47 million tons in 1989. Synthetic fibers will account for 40 percent of all fiber production, up from 29.4 percent currently. Priority will be given to developing synthetic fiber raw materials to raise self-sufficiency from the present level of 65 percent to over 80 percent. The proportion of high performance fiber will rise from the present 10 percent to 20 percent.

Ji praised the cooperation between China and foreign counterparts in manufacturing synthetic fiber equipment, including the joint manufacture of high-speed polyester filament spinning machines with the Barmag Company of the Federal Republic of Germany, and the cooperation with Toyobo Company of Japan in producing polyester staple fiber machines. He added that acrylic equipment jointly built with Dupont of the United States will soon be installed and put into production.

### Textile Machinery Association Established

OW1905194390 Beijing XINHUA in English  
1153 GMT 19 May 90

[Text] Beijing, May 19 (XINHUA)—The China Textile Machinery and Accessories Association was set up here today to act as a bridge between the government and enterprises in order to improve management and promote the development of the industry.

The new trade association's 588 members include textile machinery producers with various types of ownership from all over the country.

According to Ministry of Textile Industry statistics, China now has over 800 textile machinery and accessories producers employing 400,000 workers. The industry produces 1,500 kinds of textile machinery and equipment and exports to 36 countries and regions.

China's second international textile machinery exhibition will be held in Beijing in October.

### Baoshan Steel Works Buys Shares in Shenzhen Plant

OW2505183390 Beijing XINHUA in English  
1451 GMT 25 May 90

[Text] Shenzhen, May 25 (XINHUA)—The Baoshan Iron and Steel Enterprise Group in Shanghai today bought 40 percent of the shares of an electric welding plant in Shenzhen, one of the five special economic

zones in China, the group's Vice Manager Zhu Qingchang announced here today.

The purchase marks the completion of the establishment of Baoshan-Shenzhen Atlantic Electric Welding Plant in Shenzhen. The plant is designed to produce 6,000 tons of products used in welding annually, and 30 percent of them will be exported, a group official said.

Local economists said the event laid a foundation for the group's involvement in Shenzhen's economy.

### Guizhou Industrial Output Value Increases

HK0906013790 Guiyang Guizhou Provincial Service  
in Mandarin 2200 GMT 7 Jun 90

[Text] This year, Guizhou Province's industrial production has taken a fundamental turn for the better.

By the end of May, provincial industrial output value had reached 7.104 billion yuan, representing a 4.7 percent increase over the corresponding period of last year; light industrial output value reached 3.087 billion yuan; and heavy industrial output 4.018 billion yuan, representing a 2.1 percent increase and a 6.1 percent increase over the corresponding period of last year.

Of Guizhou's nine prefectures, autonomous prefectures, and cities, Anshun, Liupanshui, Bijie, Qiongnan Miao-Dong, and Qianxinan Prefectures maintained a double-digit increase rate in their industrial output value in the first five months of this year as compared with the corresponding period of last year. Moreover, Guiyang City, Zunyi Prefecture, and Qiannan Bouyei-Miao Autonomous Prefecture also witnessed a sustained growth in industrial output value compared with last year.

In May of this year, due to a significant improvement of certain external conditions of Guizhou's enterprises, including electricity supply and operational funds, industrial enterprises wasted no time in strengthening their production organization and management. As a result, industrial output value at and above township level reached 1.623 billion yuan, representing a 4.7 percent increase over the previous month and a 2.1 percent increase over the corresponding period of last year.

In May, coal production output reached more than 13 million tons, representing a 16 percent increase over the corresponding period of last year. Electric energy production output reached more than 4 billion kilowatt hours, representing a 10.4 percent increase.

What is more, raw and processed material production, including steel, iron, alloy steel, alloy iron, coke, and so on, also witnessed a substantial increase and attained a double-digit increase rate in May of this year compared with April.

### Henan Industrial Output Increases in May

HK0606024990 Zhengzhou Henan Provincial Service  
in Mandarin 2200 GMT 5 Jun 90

[Text] Statistics released by the Henan Provincial Statistics Bureau yesterday show that Henan's industrial output value reached 6.562 billion yuan in May, representing a two percent increase over the corresponding period of last year, thus putting an end to the consecutive drop witnessed in Henan's industrial production since the beginning of this year.

The main factor behind such a rapid recovery of Henan's industrial production is: Henan has made great efforts to readjust its industrial product mix. Statistics show that in May of this year, Henan's production of raw material products, agriculture-oriented products, and daily necessities witnessed a substantial increase compared with the corresponding period of last year. For instance, Henan's raw coal production witnessed a 6.6 percent increase; Henan's steel production witnessed a 11 percent increase; Henan's chemical fertilizer production witnessed a 8.6 percent increase; Henan's light bulb production witnessed a 40.4 percent increase. Moreover, Henan's production of refrigerators, electric fans, and other household electric appliances also witnessed a substantial increase in May of this year.

All these figures suggest that Henan's industrial production is gradually taking a fundamental turn for the better.

However, due to the fact that Henan's industrial production dropped drastically in the first four months of this year, Henan's total industrial output value in the first five months of this year was still five percent less compared with the corresponding period of last year. Moreover, Henan's industrial production has yet to increase its economic results.

According to an authoritative analysis, although Henan's industrial production is obviously recovering, in order to maintain such a momentum of recovery and sustain such growth, Henan must still make redoubled efforts to promote its industrial production development in light of its actual conditions and in a down-to-earth manner; as well, it must strive to increase the economic results of its industrial production as well in hopes of further increasing its industrial output value.

### Inefficient Scale Plagues Shanghai Industry

90CE0136A Shanghai JIEFANG RIBAO in Chinese  
2 Apr 90 p 5

[Article by Wan Zengwei (8001 2582 3555): "Some Thoughts on the Scale of Industry in Shanghai"]

[Text] A problem of uneconomical scale is a major structural ailment imbedded deeply within Shanghai's industry. The existence and development of this ailment has had a large impact, both in microeconomic and macroeconomic terms. However, it seems that people do not have a sufficiently clear understanding of this

problem. That is because everyone in recent years has been more directly affected by two other factors which have influenced economic output: across-the-board price rises for essential factors, and changes in the distribution of national income. Therefore, there is a need to take a hard look at the phenomenon of uneconomical scale in industry. Hopefully it will spur people in all sectors to give the problem serious thought.

We can view the deficiencies of the scale of industry in Shanghai from four perspectives: first, the scale of transformation of primary resources is too large; second, the scale of leading industries is insufficient; third, commercial operations are small and scattered; fourth, enterprise scale lacks flexibility.

### Excessively large-scale transformation of primary resources seriously limits the city's development and lowers side benefits from industry itself.

It is inevitable that the scale of production should be large in Shanghai, the birthplace of China's modern industry and an important base of contemporary industry. However, a large-scale production system can take huge quantities of primary resources as its foundation, or it can take relatively large quantities of materials or half-finished manufactured goods as its foundation. The point at which it enters processing is not the same, nor are the economic and social results. The recent expansion of primary processing capability in Shanghai's industry has brought with it a series of conditions and problems which has affected overall economic results. Shanghai's annual industrial output value was 113.1 billion yuan (this figure and all subsequent figures are for 1989), and it contributed 42.2 billion yuan to the gross national product. This figure is not large in comparison with other international cities in the same class. However, the quantity of materials which had to be transformed in order to maintain this level of output has seldom been seen in an international metropolis. Over 34 million tons of coal, crude oil, food grains, and cotton were transformed, and this is in addition to the consumption of various metals and non-metallic mineral resources, which exceeded 100 million tons.

There are several factors which have caused industry to depend so heavily on primary resources. Large basic industry projects such as Baogang and Jinshan are being built in Shanghai. Also, local industries have had no choice but to develop into self-contained systems because of closed domestic markets and allocation problems. However, apart from these objective, systemic factors, the fact that Shanghai itself, in its development planning, has failed to grasp such key elements as structure and quantity has also played a very important role. Take the example of local metallurgy and chemicals. Energy and other raw materials are in very short supply, and must be shipped in from distant points in China's interior, or even from abroad, while 30 to 40 percent of their products are then sold in China's interior. This is quite incompatible with economic requirements and the principles of economic results.



Because the scale of inputs and outputs is too large, conditions are very tight in Shanghai. The port, railroads, highways, city streets, electricity supply, water supply, and sewage system are all overloaded. Shanghai's ecology is also a source of concern. Problems with sewage, dust, toxic gases, and noises have grown so severe that they cannot be resolved without major investments. As an international, open city, Shanghai's ability to play its role as a locus of tertiary industrial development and a multi-functional economic center has been more and more clearly subject to the limitations of the structure and scale of industry. With respect to the development of industry itself, the conditions and restrictions described above have caused a gradual reduction in investment. A series of signs indicate that excessively large-scale transformation of primary resources has plunged Shanghai into a vicious cycle whose solution cannot be postponed any longer.

**Insufficient scale in leading industries has cost Shanghai an opportunity, and has slowed down the process of macroeconomic optimization.**

The fact that the scale of Shanghai's industrial structure is too large does not mean that the scale is too large in every line of industry. On the contrary, some types of industry in the upper echelons of the industrial structure—new leading industries which utilize advanced technology, consume small quantities of material goods, and must meet frequently fluctuating demand, which are new leading industries—have for the most part missed out on great opportunities and squandered momentum for further development as a result of insufficient scale. Color televisions, refrigerators, and motorcycles are all high-quality durable consumer goods which have escalated in the 1980's. Shanghai did not achieve enough scale before the period of hot sales which accompanied the successive waves of consumption which washed across the nation, so they lost the economies of scale which were achieved in cities like Guangzhou and Chongqing. In comparison with the enormous market share commanded by Shanghai in the 1960's and 1970's for "the three old items" (watches, bicycles, and sewing machines), and the accompanying industrial scale, the current situation can only be considered a regression. With respect to assembly of industrial goods (such as cars, power plant equipment, precision machine tools, precision instruments, and computers), although Shanghai has a long history of development, its small scale falls far short of international standards for batch production, so it is not easy to expect high economic output.

The main reason why the scale of leading industries is insufficient is that the direction of industrial development has not been clearly laid out. Policy makers do not have a sufficiently foresighted or subtle grasp of changing market demands. Under these circumstances, Shanghai has been incapable of mustering the necessary resolve to overhaul the large, unwieldy industries which have come into existence. This has caused a serious scattering of investment, while concentrated fund inputs

are precisely what is needed by the new generation of leading industries. If we do not scale back old industries, it will be impossible to stimulate rapid development of new industries.

**The scale of business operations is small and scattered, investments are redundant, competition is too intense, and there is a serious loss of benefits to outsiders.**

The scale of business operations in Shanghai has undergone two changes. In the period immediately following the founding of the nation, there were more than 20,000 factories and enterprises in Shanghai. Almost all were privately run, and operations were small and scattered. Through the transformation of the system of ownership and the relevant adjustment of industries, business operations in Shanghai had become highly concentrated by the early 1960's. The structure was headed by 70 administrative companies which provided leadership and management for more than 2000 factories, all of which formed production and operations systems based on the requirements of their products and technology. There was a clear and coordinated division of labor. Even though these changes were carried out in the midst of a switch from a commodity economy to a product economy, as far as the scale of operations was concerned, this system was very similar to that of a trust. This should be considered to be in line with the requirement for intensive economic development, and is compatible with the principle of economic results. Since the beginning of reform and opening up, with the continual devolution of operational and managerial authority to lower levels, and particularly as a result of the break-up of administrative companies, the operational scale of Shanghai's industry once again became small and scattered. Operations in industries producing such items as bicycles, watches, sewing machines, radios, brushes, and clocks had originally been relatively concentrated. They generally consisted of one or two main product factories and a few dozen parts factories, among which labor was divided and coordinated. This kind of production and operations arrangement yielded products with high reputation, widespread markets, very large batch production, and significant economies of scale. Now, however, with small and scattered operations, the operational order described above has been thrown into chaos. Some parts factories and factories which manufacture complete sets of equipment have rushed to set up independent operations and manufacture their own products. Also, some main product factories have abandoned old relationships and started from scratch, searching for new units with which to engage in coordinated processing. This has resulted in redundant production of several low-quality products in a single industry, and has seriously weakened the competitive position of these products. As for the new products which have surged onto the market in the 1980's, the operational situation is even more chaotic. There are large numbers of main product factories within a single department, and competition takes place on a very small scale. What is more, different departments are racing against each other to get their products on the market, and each department forms a

system unto itself. People inside and outside the industries in question have rushed to invest in production of color televisions, refrigerators, washing machines, vacuum cleaners, tape recorders, air conditioners, microwaves, electromagnetic ranges, clothing, and woolen sweaters. The situation was out of control for a while, particularly with food, beverages, and cosmetics. Within the municipality there was a surprising total of over 200 factories belonging to more than 20 systems engaged in independent production and operations. The waste of resources, inconsistent quality, low economic results, and unhealthy competition have gotten to a state that is difficult to countenance.

**Enterprise scale lacks flexibility. "Big and complete," "small and complete," do not meet the requirements of domestic and international market competition.**

Approximately one-third of all manufactured products from Shanghai's industry are intended for the international market. Although these products have certain advantages over those from other regions in China in terms of quality, style, and costs in terms of foreign exchange earnings, there are problems. One is that these advantages are continually being pared down, and many individual products have already lost the edge to those from sister provinces and municipalities. Another problem is that the products in which we hold these temporary advantages still fall far short of meeting the requirements of the international market. The primary factors here are technology and management, of course, but we cannot ignore another important factor—the scale of enterprise. When it comes to consumer goods for daily use, the international market demands wide variety, small batch production, and new styles. Small-scale enterprises have always been able to perform this type of production, but our enterprises which manufacture this kind of product, while not terribly large in scale, are still much larger than enterprises in the same category abroad. The international market places great importance on price-performance ratios for durable consumer goods, which has generally been achievable only through large-scale production, but the scale of our manufacturing enterprises, though not small on average, still falls far short of that of enterprises in the same category abroad.

A rational scale for manufacturing enterprises would be one which responded flexibly to changing products and changing market requirements. When it is time to expand in scale, we must rapidly expand productive forces. When it is time to scale down, we must quickly disperse productive forces. We do not now possess the ability to flexibly adjust the scale of manufacturing enterprises, which are under the influence of selfish departmentalist policies on the part of officials. They never want to do anything but expand. Besides seeking to expand in a vertical direction by adding to productive forces, they also pursue horizontal expansion into technological coordination, equipment repair, and even supplementary welfare facilities. Their hope is to shut themselves off from the world by achieving self-sufficiency.

After studying a number of manufacturing enterprises in Shanghai, one discovers that the history of nearly every firm's development follows a common path: from small to large, and from narrow to complete. It is apparent that an extremely uneconomical mechanism is governing the changes in scale of manufacturing enterprises. Manufacturing enterprises under the influence of this mechanism cannot easily meet the required scale of batch production, or compete on the international market. In the long run, even if competition grows more intense as a result of raised levels of consumption and demand, and an increasingly selective domestic market, our enterprises are unlikely to adjust to the proper scale

### Industrial Production Increases in Shanghai

OW0406135990 Beijing XINHUA in English  
1332 GMT 4 Jun 90

[Text] Shanghai, June 4 (XINHUA)—Shanghai, China's largest metropolis, reported a total industrial output value of 45.687 billion yuan in the first five months of this year, a 0.3 percent increase over the same period last year.

A spokesman said that this indicates that Shanghai's economy is developing in a healthy way in line with the goals of the economic rectification drive.

In May the city recorded a total industrial output value of more than 10 billion yuan, the first rise this year—up 2.7 percent over April and up 3.3 percent over the same month last year.

Major industrial and agricultural products reported big increases. Output of iron ore, steel, non-ferrous metals, ethylene, chemical fertilizer and pesticides increased by over 10 percent in May.

The city produced 1.515 billion yuan worth of goods for export in May.

### SMALL-SCALE ENTERPRISES

#### Zhejiang Draws Economic Lessons From Jiangsu

90CE0188A Beijing JINGJI CANKAO in Chinese  
23 Apr 90 p 1

[Article by Xu Xian (6079 7639) and Zhang Desheng (1728 1795 0524): "A Study of Solutions to the Problems of Township Enterprises in Zhejiang Province; Contrasts, Reflections, and Brave Advances"]

[Text] Zhejiang and Jiangsu are the PRC provinces in which township enterprises emerged first and are flourishing best. In their rates of growth, they have been like two fine horses racing neck and neck and trying to outdo each other in friendly competition, ranking first and second throughout the PRC in recent years. Due to improvement in the economic environment and rectification of the economic order, township enterprises in both provinces were confronted with the same grim conditions in 1989, and have both experienced severe

"slippage" since August. As Jiangsu Province quickly checked the "slippage" at the end of 1989, its township enterprise production has recovered month by month, with its growth rate more than seven percent and its industrial output value still ranking first in the PRC for the first quarter of 1990. Whereas Zhejiang Province's township enterprises have continued to decline, and Zhejiang had the slowest growth rate in the PRC, experienced negative growth in 47 of its 85 counties (cities), and its industrial output value was overtaken by provinces such as Shandong and Liaoning in the first quarter of 1990.

This striking contrast has left Zhejiang's comrades wondering why, under the same external conditions, Jiangsu has been able to continue at top speed and leave Zhejiang behind.

We in Zhejiang have used Jiangsu as a mirror, compared conditions one by one, and discovered the following differences:

#### **Zhejiang Has Had a More Superficial Understanding**

Upon returning from a tour of investigation in southern Jiangsu, Zhang Yaode [4545 5069 1795], director of the Zhejiang Province Township Enterprise Bureau, sighed and spoke approximately as follows: Jiangsu has been able to fully understand the historic position and role of township enterprises, which are the only way to achieve rural industrialization and modernization in the PRC. Thus, its policies and ranks have remained stable, not vacillating now to the left and now to the right, or drifting with the currents of political change. Whereas Zhejiang's weakness is precisely our superficial understanding that developing the productive forces means simply earning more profits and creating more output value. Thus, when great storms arise, we become flustered, troubled, and confused, vacillate now to the left and now to the right, are demoralized, and sometimes even hold ourselves in contempt. This is perhaps our most basic difference with Jiangsu!

#### **Zhejiang Has Taken More Shortsighted Actions**

Zhang Yaode continued approximately as follows: Jiangsu's "flexible" policy on developing township enterprises in recent years has been endlessly admired by people in Zhejiang. I discovered on this comparative investigation tour that Jiangsu's policy is certainly not completely "flexible," but rather "flexible" where it needs to be "flexible" and "definitely rigid" where it needs to be "rigid." For instance, as to its policies on accumulation and distribution, Jiangsu has always emphasized paying the right amount to the state while keeping enough for collective needs. As to enterprise accumulation, it rigidly sets aftertax profits at 60 percent and self-owned capital at over 30 percent in order to give enterprises strong capability to accumulate and grow on their own initiative. Township enterprises in Suzhou City have accumulated the huge sum of 4 billion yuan to

invest in upgrading technology since 1987, which has given them a favorable investment climate and sound growth factors.

Township enterprises in Zhejiang Province, however, have overemphasized improving staff members' and workers' living conditions and making payments to the state, which has left enterprises with too few profits, created a situation of "plenty at both ends but nothing in the middle," and left enterprises with critically inadequate growth stamina. Not only have these "short-sighted" methods not aroused the initiative of our vast numbers of staff members and workers, but they have instead increased consumer appetites and formed a vicious cycle.

#### **Rising With Force and Spirit To Meet the Crisis**

Zhang Yaode continued approximately as follows: The comparison with Jiangsu Province has left us in Zhejiang with a strong sense of crisis and urgency. We have all been dissatisfied with the situation, offered advice one after another, and discussed matters of vital importance to overtaking and surpassing Jiangsu and stabilizing and developing Zhejiang's township enterprises. In addition to learning from Jiangsu in the areas of restructuring, enhancing management, stabilizing ranks, and improving quality, we have also all recommended a strategic plan of emphasizing priorities and key large and medium-sized enterprises based on Zhejiang's actual conditions. We in Zhejiang have inventoried our ranks and discovered that, of our over 100,000 township enterprises, about 10,000 key enterprises with output values over 1 million yuan account for over 70 percent of the output value, profit, and taxes in their industries throughout Zhejiang. Everyone feels that if we focus our energies on developing these key enterprises, put appropriately preferential policies into effect for them, focus our plans on supporting them, and urge them to develop in the direction of improving their scope, quality, and variety, becoming more creative, producing better products, earning more foreign exchange, improving their economic efficiency, and basically paying more attention to the overall situation, we will be able to overcome our difficulties and get onto a track of development that is suited to Zhejiang's particular characteristics.

## **CONSTRUCTION**

#### **Further 5 Billion Yuan for Basic Construction**

*HK0406152590 Beijing CEI Database in English  
4 Jun 90*

[Text] Beijing (CEI)—The People's Bank of China, the central bank, has recently decided to grant an extra 5 billion yuan this year in loans for the country's major basic construction projects, informed sources here said. The sources said that the loans will mainly go to energy, communication and raw material industries which are expected to be completed and go into operation within this year.

## Shanghai To Give Priority to Key Capital Projects

OW0505222990 Beijing XINHUA in English  
1111 GMT 3 May 90

[Text] Shanghai, May 3 (XINHUA)—Shanghai, China's leading industrial center, will give priority to 41 key projects this year.

These projects include the second construction phase of the Baoshan Iron and Steel Complex, the Jinshan petrochemical works, the Shanghai subway, a bridge across the Huangpu River and pollution treatment of Suzhou Creek.

According Huang Ju, deputy mayor of the city, the municipal government will spend one-fifth of its annual revenue of 10.417 billion yuan (about 2.216 billion U.S. Dollars) on these projects.

To ensure their smooth construction, Huang said, the city will cancel or postpone capital construction projects that are neither involved in the fields of energy development, transport, agriculture or education nor closely linked with the people's livelihoods or urban security.

## Investigative Report on Shanxi's Housing Reform

90OH0451A Beijing CHENGXIANG JIANSHE  
[URBAN AND RURAL CONSTRUCTION] in Chinese  
No 2, 5 Feb 90 pp 20-22

[Article by Sheng Fang (4141 2455): "Findings Report on Housing System Reform in Shanxi Province"]

[Text] A fact-finding group made up of some of the comrades from Shanxi Province's Restructuring of the Economic System Commission and Housing Reform Office, recently visited Yangquan, Datong, Shuo Xian County, Pingyuan, and Taiyuan City, to investigate housing system reform in Shanxi Province, and reported its findings as follows:

### I. A Housing Reform Progress Report

The following four types of housing reforms have taken place in Shanxi Province:

1. *Public Housing Sales:* A public housing sales plan has been in effect since October 1988 in nine counties, such as Gaoping, Shuo Xian, and Zuoyun. In addition, some enterprises and institutions in Taiyuan City have also sold public housing. Of the public housing offered for sale, the standard price for new housing includes construction cost plus local compensation for demolition and moving, and the standard price for used housing is the repurchase price minus a renovation rebate. The actual selling price is the standard price minus the favorable terms given by preferential policies. To date, 680,000 square meters of public housing have been sold for 35.2 million yuan throughout Shanxi. In order to consolidate its housing sales successes and balance the economic interests of its staff members and workers, Shuo Xian County is also raising the rent for unsold public housing in stages. It is deducting about eight

percent of the average family income of staff members and workers throughout Shuo Xian County, by raising rents from 0.07 to 0.27 yuan per square meters in the first stage, and then raising them to their proper level progressively. Public housing sales conform well to actual county town conditions by reducing the heavy burden on the state and enterprises, guiding consumers correctly, and laying a good foundation for better circulation of housing funds;

2. *Rent Subsidy Increases:* Based on a detailed survey of the housing conditions of its staff members and workers and its enterprise housing fund source channels, the Huifeng Machine-Building Plant in Changzhi City has drawn up a housing reform plan to "start public housing sales, and increase rent subsidies to their proper level," which sets housing rents at 1.25 yuan per square meters and rent subsidies at 24.5 percent of basic wages. It uses standard prices for both new and used housing sales, with downpayments of 30 percent and balances to be paid off in 10 years. It is estimated that after deducting those funds that go for housing subsidies and necessary reductions, exemptions, and subsidies, this enterprise will still have over 1 million yuan of raised housing funds a year that can be used for new housing construction and renovation. The plant has sold 150,000 sq m of public housing, or 82 percent of its housing area, for 4.51 million yuan.

3. *Secured Leasing:* The distinguishing features of secured leasing are that staff members and workers pay standard fixed deposits for housing use rights during the terms of their leases, with savings interest on deposits taking the place of rents, rents not having to be paid, and units returning deposits when leases expire. The Taiyuan Aluminum Products Plant, a new enterprise, was the first to propose and put into effect in February 1989 a housing reform plan for "secured leasing, compensated allotment, and interest taking the place of rent, for public housing." Then based on its actual conditions, the Taiyuan Chemical Fertilizer Plant, an old enterprise, further revised and improved the Taiyuan Aluminum Products Plant's housing reform plan by proposing and putting into effect in June 1989 one in which "secured leasing was used for new housing allotments, and rents were adjusted for used housing." The staff members and workers in these two enterprises welcomed these plans because they had the basic economic capability to participate in them, and were readily receptive to them ideologically because adjusting rents for used housing balanced the interests of those who lived in both new and used housing. As the economic capability of the state, enterprises, and individual staff members and workers to participate in "public housing sales" or "selling bonds to increase rent subsidies" alone is not strong under present conditions, secured leasing is more feasible and a better transition method.

4. *Pooling Resources To Build Housing:* The major features of pooling resources to build housing are that the state gives policy support but does not have to invest money, individuals make the major investments, units

give suitable subsidies, and banks give loan support, to enable staff members and workers to resolve their housing problems through mutual aid. Eight units in Datong City pooled their resources to build housing, raising over 6 million yuan and resolving the housing problems of almost 1,000 families. Certain units in cities, such as Taiyuan, Yangquan, and Changzhi, are also using the housing reform method of pooling resources to build housing. In addition, Taiyuan City has established problem-solving housing cooperatives, which are about to begin work. The development of pooling resources to build housing and the establishment of housing cooperatives have initiated new ways to resolve the housing problems of middle- and low-income families.

## **II. Difficulties That Have Been Encountered and Current Issues That Exist in Housing Reform**

Although Shanxi Province has generally made a certain amount of progress and achieved initial successes in over a year of housing reform, it has also encountered many practical difficulties, and many issues demanding prompt study and solution still exist. The major current issues and difficulties are as follows:

### *1. Practical Economic Factors Have Restricted the Successful Implementation of Housing System Reforms*

The method of "increasing rent subsidies" that was proposed in the relevant State Council document, is gradually reforming the housing system currently in effect which uses a supply system of mostly allotment in kind, to one that uses a commodity system of mostly distribution for money. This method has been expounded and proved again and again, and the idea conforms to the laws of development for a socialist commodity economy. Public finance departments and enterprises are required to share the costs in this method of housing reform. However, the actual situation is that the financial resources of public finance departments at all levels are very tight and hardly able to bear the cost, and it is difficult for most enterprises to meet the need for housing reform funds, because of high product costs and poor economic efficiency due to many objective factors in recent years. Enterprises that earn small profits or sustain losses are even less able to bear the cost, and the difficulties are especially great for those units that have very little or even no public housing of their own. Thus, it is not easy to carry out the method of "increasing rent subsidies" in an all-round way in a particular city or county. If a few units in a particular city or county try out this method, they are likely to run into problems in getting the cooperation of the relevant units involved, because of the radiation impact of overlapping housing jurisdiction. This makes it very difficult to carry out housing reform completely according to the method of "increasing rent subsidies."

As to the issue of staff members and workers buying housing, since the wages of staff members and workers in the PRC now include very little consumer funds for housing, and many years of hard work are needed to save

up the necessary funds, most staff members and workers are unable to buy housing. Although it would be possible to put certain preferential policies into effect to make allowance for the economic capabilities of staff members and workers, giving too many preferences, as some regions and units do, puts housing prices critically out of line with housing values, gives housing sales the nature of welfare benefits to varying degrees, and does not conform to the aim of housing commercialization. Although practicing the method of public housing sales in an all-out way, especially in large- and medium-sized cities, might reduce instead of increasing the burdens on public finance departments and enterprises, it would run into the problem of the economic capabilities of most staff members and workers being too weak to allow them to participate in it.

### *2. The Vacillation That Has Existed for a Time in Guiding Ideology Has Affected Housing Reform Progress*

The State Council clearly pointed out in a relevant document in February 1988 that the objective of housing reform is "to achieve housing commercialization according to the needs of a socialist planned commodity economy." In the 12 experimental cities and counties that it chose based on the spirit of this document, Shanxi Province did a lot of painstaking sounding out on rent subsidy increases, drew up a plan to implement them, held meetings to discuss improvements of the plan, and was prepared to put it into effect when the time was right. But after certain major responsible Central Committee comrades pointed out that the general policy on housing reform was to realize "the privatization of housing," the focus of housing reform was shifted to public housing sales. The Central Committee's lack of local theoretical and policy guidance on issues, such as whether the aim of housing reform was to be "commercialization" or "privatization," and whether it was the operating mechanism or the ownership structure of housing that was to be reformed, caused ideological confusion in all areas, certain plans that were ready to be put into effect to be shelved, and the overall progress of housing reform to be affected.

### *3. The Incompleteness of Reforms and Lack of Cooperation Among Concerned Departments Have Caused a Certain Amount of Resistance to Housing Reform*

The concerned departments certainly did not carry out the necessary corresponding reforms after the relevant State Council document was issued. Tax collection departments in many counties and cities emphasized that until they were notified about the specific regulations of the document, they could neither act according to its provisions nor grant favorable tax policy terms for housing construction and management. The competition for housing reform savings business between the Industrial and Commercial Bank of China and the People's Construction Bank made it very difficult for all local units to participate in housing reform, for fear that offending either bank might create trouble for their normal production and management activities, while the awkward situation and lack of coordination among even local governments and the People's Bank of China meant that there was no unified financial

institution to manage the funds earned from housing sales. The planning sector's refusal to manage housing construction as commodity production according to guidance planning, continuing to regard it as capital investment, and managing commodity housing as capital investment according to directive planning based on transmitted State Council documents, made it difficult for the funds earned from public housing sales to continue to be used to build new or renovate used housing, and affected both housing fund circulation and further settlement of staff members and workers' housing difficulties. The circular on freezing funds recovered from housing sales for two years, that was issued by the State Administration of State Property, worsened the circulation of housing funds, while the contradictions among documents undermined the enthusiasm of all areas for public housing sales. The division of urban real estate and housing management into two sectors, created contradictions between housing ownership and land use rights after urban staff members and workers bought housing. All of this lack of cooperation has created a certain amount of resistance to and handicaps for housing reform developments.

#### *4. The Leadership Has Paid Too Little Attention to Housing Reform*

Surveys and general reports from all areas show that housing reform has basically not been put on the agendas of local governments, and has either been not studied at all, or studied too little. This is another significant cause of our housing reform difficulties.

#### *5. Housing Reform Organs Are Not Suited to Housing Reform Tasks*

Although housing reform is a comprehensive and complex kind of systems engineering and a long-range task, all of Shanxi Province's housing reform offices at all levels are provisional organs made up of comrades transferred temporarily from the various concerned departments. Some are set up in construction offices, some in housing management offices, and yet others in housing development companies. As they have neither authorized strengths or funds, in addition to other reasons, they have lost public support. For instance, 90 percent of the staffs of the housing reform offices in the cities of Datong and Yangquan have returned to their former units.

### **III. Remedies and Recommendations for Speeding Up Housing Reform**

As the Central Committee has indicated recently that housing reform should continue to advance firmly and steadily, I am making the following recommendations, based on Shanxi Province's actual conditions, to further speed up housing system reforms:

#### *1. The Objectives and Means of Future Housing Reform*

We think that since the objective of "housing privatization" is not only out of keeping with the PRC's national conditions, but is hard to achieve even in economically

developed capitalist countries, our future housing reform objective should continue to be housing commercialization based on the needs of our socialist planned commodity economy. Housing commercialization can be achieved by either gradually raising public housing rents to the level of commodity rents, or through public housing sales. As housing commercialization will be a long process, we must begin to achieve this objective by reforming our system of low rents for public housing. In light of the limited economic capabilities of Shanxi Province's public finance, enterprises, and individual staff members and workers, we should not try to raise our low rents for public housing to a level where they are based on costs all at once, but rather by increasing the burdens on public finance, enterprises, and individuals gradually. Moreover, different means should be used based on the various characteristics of county towns and large- and medium-sized cities. Plans can continue to be drawn up for county towns based on the principles of "focusing on sales, not granting subsidies, giving one-time favorable terms, and raising rents gradually," i.e., either by offering for sale first and raising rents later, or by doing both at once. The method of raising rents to promote sales should be used for large- and medium-sized cities. But although rents are raised first, attention should be paid to keeping the increases within the bearable capacities of public finance, enterprises, and individuals. Based on the principle of "rents based on housing size," the methods of either "step-by-step rent increases, less granting of subsidies, and not acting too abruptly" or "tiny rent increases, carefully-considered half steps, and not granting subsidies" can be used. In both of these methods of raising rents, above-standard rent increases should be used for above-standard housing, and rents can be raised to the proper level for above-standard housing all at once. At the same time, active steps should be taken to guide consumers, by urging individuals who can to buy housing. In light of the fact that large- and medium-sized cities have more complex actual conditions, greater personnel mobility, much larger disparities in economic efficiency among various enterprises, and very different amounts of public housing in various units, housing reform methods should not be applied there indiscriminately for the immediate future. Although diversified experiments should be allowed to be carried out based on particular conditions and premised on not violating general housing reform principles, new systems must be used for new housing, and the method of free allotment must not be allowed to continue to be used for new housing.

#### *2. Concerned Departments Must Make Necessary Reforms*

As over a year of housing reform experience has shown, overall housing reform cannot be carried out smoothly unless concerned departments make necessary reforms. Thus, it is recommended that the government of Shanxi Province instruct all concerned departments to draw up plans for the necessary reforms in their departments in line with the spirit of the relevant State Council document. Moreover, it is hoped that the Shanxi government

will report the situation to the State Council, to see if it will modify its provisions on "freezing the money recovered through housing sales for two years" and regarding commodity housing construction as capital investment," so that the funds recovered through public housing sales can be used to build new or renovate used housing, and the housing difficulties of urban staff members and workers can continue to be resolved. In addition, it is recommended that housing reform offices at all levels be allowed to join the planning sector in studying plans to control residential and commodity housing construction, and that either housing savings banks be set up to conduct experiments in shareholding systems, assuming the sole responsibility for their profits or losses, and digesting profits or losses on their own, or that housing fund management committees be set up to centralize control of housing funds, so that special funds are used for special purposes and housing reforms are carried out smoothly.

### *3. Leadership Should Be Enhanced and Organizations Should Be Perfected*

Governments at all levels should truly include housing reform in their overall economic reform plans, put it on their agendas, and regularly or occasionally organize all concerned departments to study ways to resolve the various difficulties and issues encountered in housing reform. As housing reform will be a complex long-term job, a sound working organization must be set up that is able to adapt to its needs. It is recommended that the Shanxi government consult the methods used in places, such as Beijing Municipality, by either formally including a housing reform organization in its authorized strength and regarding it as a functioning department unit, or by giving the job of housing reform to a comprehensive economic department that is able to coordinate relations among all sectors, in order to ensure the effective implementation of housing reform policies and measures in an organized way.

## FOREIGN TRADE, INVESTMENT

### **Changes Suggested in Foreign Trade Contract System**

90CE0009A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 2, 28 Feb 90 pp 2-8, 13

[By Qiu Demin (6726 1795 3046)]

[Text] Since China put into effect "layered" contract management for foreign trade in 1988, the opinions and judgments coming from various sectors of the public have been mixed. The 1990 expiration of the contracts is approaching. An important task before us is to determine by the appointed time whether contract management is to be continued for foreign trade and how best it should be implemented. I do not agree that the disadvantages of "layered" contracts outweigh their advantages. This article briefly describes my views on contract

management for foreign trade enterprises and is intended for specialists and scholars.

### **I. The Theoretical Basis for Implementing the Contract Management Responsibility System for Foreign Trade Enterprises**

Whether China ultimately implements contract management for foreign trade enterprises is an important theoretical question as well as a matter of principle. It is also an extremely urgent practical matter. Looking back over the two years that contract management for foreign trade has been in effect, it is my opinion that the system is a good method for correctly handling state and enterprise relations in China's planned commodity economy and a good way to gradually effect separation of government and enterprises, independent decisionmaking by enterprises, and their assumption of sole responsibility for profits and losses. Because it is established on a foundation of socialist public ownership, the planned commodity economy has four basic characteristics. First, its public ownership aspect cannot change. Second, it must receive the guidance of state planning and accept the restrictions of plans and policies. Third, public ownership of socialist enterprises constitute the essential part of social production and exchange. Fourth, the socialist principles of distribution according to work and exchange at equal value must be carried out. These basic characteristics of a socialist commodity economy determine that, within a socialist commodity economy, state and enterprise relations cannot be the relations of a superior leader to an inferior leader, nor can they be the relations of capital ownership of a capitalist commodity economy. Instead, there must be a contractual relationship between the one who has the capital goods and the one who manages production. This is why socialist foreign trade enterprises, on the one hand, must undertake the export planning tasks of the state, and on the other hand must enter the domestic and foreign commodity exchange markets. Because of the former, they must be subject to guidance and supervision of state planning. And, because of the latter, they must be independent and able to take the initiative and assume sole responsibility for profits and losses. The former is determined by the basic economic laws of socialism and the laws of planned development, and the latter is the objective requirement of the law of value in a socialist commodity economy. Therefore, in order to develop China's foreign trade, we must effect a relative separation of ownership and state administrative authority from managerial authority, using the intrinsic characteristics and special features of our socialist commodity economy as our point of departure.

How are we to effect the relative separation of state ownership of property and administrative authority from enterprise managerial authority? I feel that there are various methods that could be used. However, the contract managerial responsibility system for foreign trade enterprises is without a doubt a fairly ideal model. It is not only advantageous to consolidating and developing socialist public ownership and advantageous to



fulfilling state plans, it is also advantageous to gradually bringing together the implementation of enterprise responsibility, authority, and benefit, thus enabling enterprises to take the road of making their own managerial decisions and assuming responsibility for profits and losses. At the same time, by means of contract agreements, the contract management responsibility system for foreign trade enterprises has first of all conceptually transformed the higher-level, lower-level relationship between the state and the enterprise and, as a practical matter, has moved a step closer to separating the obligations of state and enterprise, thereby fully conforming to the special features and characteristics of China's socialist commodity economy. It is for these reasons that we must soberly sum up our experience and thus perfect the contract management responsibility system for foreign trade.

Some comrades could, on the basis of the great confusion that prevailed after foreign trade contract management was in place, harbor some doubts about the contract management responsibility system for foreign trade enterprises or even take a negative attitude toward it. It is my opinion that this is not acceptable.

We have to admit that, right from the beginning of foreign trade contract management, China's foreign trade activity suffered from the so-called problem of "high prices and panic-buying, low prices and competitive sales," which became more and more common and gradually escalated to the point where, at one time, "great battles" flared up from every direction, causing large economic losses for the state. How and why have this confusion and these battles occurred, and how are we to suppress them for good? I do not think that the enterprises are the source of the problem, but it is rather the various levels of local governments. Given the pressures created by the local governments and the excessive authority they were granted after the implementation of foreign trade "layered" contracts and given the regional blockades and regional monopolies created by the "layered" contracts, it was inevitable that the state would be unable to exercise macroeconomic regulation and control and its authority would be lost. The evidence shows that following foreign trade's implementation of "layered" contracts, although it inspired local enthusiasm, it brought two negative results that hindered the further deepening of reform. First, the contracts concentrated managerial authority and operational authority for foreign trade in the single body of the local government, thus strengthening the local government's direct administrative intervention into the operational activities of foreign trade enterprises and weakening independent decisionmaking power of the enterprise. Second, an extremely unfair climate of competition was created by the differences in the economies and geographical positions of the various provinces and cities, especially the great disparity that exists in their financial resources, by the policy of "arbitrary uniformity" used to decide contract targets, and by the state's strong inclination toward specific regions as part of its policy to support

foreign trade. In recent years, "turmoil" and "losses" have been the focus of a great many of China's foreign trade operational problems. "Turmoil" has been the leading cause of "losses," and "losses" have been the disastrous consequence of "turmoil." The latter to a great degree has a direct relationship with the unfairness and incompleteness of the state's macroeconomic policies and foreign trade's "layered" contracts. Under these circumstances, enterprises cannot exercise any authority. Were there no regional separatism and expansion of unfair competition that the "layered" contracts have brought about and were there no local governments exercising excessive direct administrative interference in enterprise operations, then it is absolutely unlikely that the vast majority of enterprises would be sparing no expense and bearing the burden of huge losses to participate in blind competition. Conversely, they actually would be able to pursue greater economic efficiency by strengthening management, by fine tuning their planning, and by improving the level of their professionalism and the quality of their service. This brief analysis tells us that, when discussing foreign trade contract management, we have to strictly distinguish between foreign trade "layered" contracts and foreign trade enterprise contract management.

## **II. Several Problems in Perfecting the Contract Management Responsibility System for Foreign Trade Enterprises**

Given China's socialist commodity economy, putting the contract management responsibility system for foreign trade enterprises into effect has a certain feasibility and objective inevitability. However, because it has a history of only a little more than two years, and because of it was born and grew during macroeconomic reform of the foreign trade system when economic policies were not coordinated and when there was instability, certain problems concerning its lack of perfection could not be avoided. It also needs to be subjected to actual practice, and it is our duty to support it and help it to gradually become perfected and mature.

A. Improving the climate for macroeconomic policies is a precondition for perfecting the contract management responsibility system for foreign trade.

With regard to foreign trade enterprises, the so-called climate for macroeconomic policies refers mainly to the effect and influence of the economic regulatory system stipulated by the state, which is composed of exchange rates, tax rates, costs in terms of foreign exchange, and foreign exchange retention. We will, based on our two years of experience with the contract management responsibility system for foreign trade and the main problems now confronting us, confine our discussion here to policies on exchange rates, costs in terms of foreign exchange, and foreign exchange retention.

1. Determining fair exchange rates. Exchange rates are a decisive factor for many economic policies affecting the import-export operations of enterprises. Everyone

knows that China's present exchange rate was adopted in 1986 at a time when the economy was overheated and that it was based on the previous year's average costs of export commodities in terms of foreign exchange, plus a certain profit. The method did not fully take into account domestic price increases nor depreciation of the U.S. dollar. The disparity between the exchange rate and the conversion rate on China's present foreign exchange markets and the actual costs of export commodities in terms of foreign exchange is large. In terms of conversion rates, the official rate is 3.72:1 and the market rate 6.5:1, the market rate being 2.88 yuan higher than the official rate. In terms of costs, using Shaanxi Province as an example, the state-determined average cost in terms of foreign exchange was 4.31 yuan, whereas the actual cost in terms of foreign exchange was as high as 4.59 yuan, a 0.28 yuan difference between the actual cost in terms of foreign exchange and that set by the state. Obviously, the present renminbi rate of exchange is advantageous to the state. However, it is not advantageous to the enterprises. This is not fair. In my opinion, we have to replace the present exchange rate with a fair exchange rate.

When we say a fair exchange rate, we mean a rate that both the state and enterprises can accept in present day China, not a rate of exchange in which the value of the renminbi is significantly higher than the value of the foreign currency. The accurate determination of a fair exchange rate must take the present exchange rate as its base. It must take into account the domestic price of commodities and changes in the U.S. dollar. The formula for this is as follows:

*Fair exchange rate = present exchange rate  $\times$  [1 + renminbi depreciation % + or - (U.S. dollar depreciation % - renminbi depreciation %)]* (Note: The plus and minus symbols prior to the beginning parentheses refer to the rise and fall in the value of the U.S. dollar. When the U.S. dollar rises, use the "-"; when it falls, use the "+").

Suppose that in 1988 the value of the renminbi declined 18 percent and that the U.S. dollar declined 30 percent against the principle currencies of the Western countries and against the renminbi. On the basis of the present renminbi exchange rate of 3.72:1, the formula would work as follows:

Fair exchange rate =  $3.72 \times [1 + 18\% + (30\% - 18\%)] = 4.84$  (yuan).

Although this exchange rate is renminbi 1.12 yuan more than the present exchange rate, it would reduce enterprise losses, stimulate exports, control imports, and more closely approach actual costs in terms of foreign exchange. The enterprises could easily accept it. Furthermore, the export subsidy that the state gives to the enterprises, which is based on the disparity between the costs in terms of foreign exchange and the renminbi exchange rate, becomes export income for the enterprises. This has the effect of increasing awareness among enterprises that they can earn foreign exchange through

exports and of weakening their reliance on export subsidies, thereby moderating their complaints of losses and demands for subsidies and also enabling enterprises to gradually cast aside the burden of loss compensation.

Although, on the basis of this exchange rate, the state would have to put out 1.12 yuan more in renminbi to the enterprises than they do now for each \$1 that the enterprises turn over to the state, the original subsidy of 0.59 yuan in renminbi (4.31 - 3.72) that the state must give enterprises for each \$1 of exports could be eliminated. In addition, as far as actual costs are concerned, the new exchange rate could ensure that the costs to the state, with regard to each \$1 that the enterprises turn over, would be reduced from the original 0.59 yuan to 0.25 yuan (4.84 - 4.59 yuan).

After a fair exchange rate is determined, we must maintain its stability. Generally, when the value of the renminbi rises or drops less than 10 percent and the value of the U.S. dollar rises or falls (with relation to the renminbi) less than 20 percent, no adjustment is needed. However, if these limitations are exceeded, appropriate adjustments must be made.

2. Appraising and deciding fair costs. As everyone knows, China's current export costs in terms of foreign exchange are decided on the basis of the total renminbi price of export goods excluding the actual foreign exchange that the enterprise earned the previous year in exports. The method is static, after-the-fact, and suggestive of a final settlement of accounts. In the past, this way of determining costs in terms of foreign exchange was a ruler that the enterprises could use to manage exports. However, for now and in the future, it at best can only represent a reference point for enterprises in managing exports. In an economy marked by shortages such as China has, where overall demand exceeds overall supply, it is difficult to change within a short time the overall trend of price rises with the costs of foreign trade and replenishing stocks still continuing to rise. As a result, not taking the rise in prices into consideration in determining costs in terms of foreign exchange neither conforms to reality nor is it fair. Although such a method benefits the state and can exert pressure on enterprises, we know from experience that enterprises cannot withstand this kind of pressure.

To consider both the interests of the state and the enterprises and to inspire enthusiasm among the enterprises for exports, we have to make sure the determination of costs in terms of foreign exchange is fair and reasonable and that they conform to objective reality if from now on we continue to use this measure (which I do not approve of). Accordingly, I propose a fair costs concept—to make a distinction with the wording normally used.

To determine fair costs, we have to consider the rise in domestic commodity prices. We could use the method of taking the average costs in terms of foreign exchange (the actual costs) at the end of the contract period and adding

the average rise in commodity prices for the three years of the previous contract period (using a median value for extraordinary years). The formula for figuring this would be as follows:

*The costs in terms of foreign exchange for the new contract period = the average costs in terms of foreign exchange for the end of the previous contract period  $\times$  (1 + the average rate of increase for commodity prices during the three years of the previous contract period).*

Taking Shaanxi as the example again, suppose that the previous contract period was 1986-1988, that the average costs in terms of foreign exchange for the 1988 end of the period was determined to be 4.31 yuan, and that the average rate of increase for commodity prices was 15 percent. The foreign exchange costs for the new 1989 contract would in that case be:  $4.31 \times (1 + 15 \text{ percent}) = 4.96$  yuan. These costs are 0.37 yuan greater than Shaanxi Province's actual 1988 foreign exchange costs of 4.59 yuan and 0.12 yuan greater than the 4.84 yuan fair rate of exchange described above. They basically are within the capability of the enterprises to handle, and in addition, they greatly reduce the state's loss subsidies. Before implementing a fair rate of exchange and fair foreign exchange costs, the state must make up for 0.59 yuan of each U.S. dollar of enterprise exports that is handed over to the state ( $4.31 - 3.72$ ); at present, the state only has to make up for 0.12 yuan in renminbi for each U.S. dollar that an enterprise hands over ( $4.96 - 4.84$ ), a 0.47 yuan ( $0.59 - 0.12$ ) reduction compared to the past. As for that portion of the fair costs that exceeds the original costs (0.65 yuan), the enterprises can make it up from the income they receive from that portion of the fair rate of exchange that exceeds the present rate of exchange ( $4.84 - 3.72 = 1.12$  yuan), and the state essentially does not have to be burdened.

3. Uniform foreign exchange retention standards. Putting into effect a foreign exchange retention policy would be a major means of inspiring enterprise enthusiasm. Combining the implementation of a foreign exchange retention policy with the opening up of foreign exchange markets, to a certain extent and within certain limits, would not only permit enterprises to integrate on an overall basis their domestic production and management with buying and selling (imports and exports) on the international markets, it would also give them the increased capability to compensate for their losses. However, because retention standards between regions, between departments, between higher and lower levels (province, prefecture, and county), as well as between different commodities are not uniform, and especially because of the serious regional inclinations, unfair conditions have been created for competition. The result has been repeated "battles," with everyone cursing each other and fighting with each other. This is why we have to adjust this retention policy.

a) The elimination of foreign exchange retention outside central and local government planning. According to the functional division of labor between the state and the

enterprises, the foreign exchange needed by the central and local governments to conduct public business and for large and medium-sized state construction projects should be arranged for on an overall basis from the foreign exchange handed over to the central government by the enterprises. Instructions in this regard should be issued to the lower levels. When the central government does not have enough foreign exchange, it can buy it on the foreign exchange markets.

b) The elimination of foreign exchange retention for departments responsible for economic work. As components of various levels of government, the principle tasks of the departments in charge of economic work are to propagandize and implement among the trades or professions for which they are responsible the principles and policies of the central government and the government level to which they belong, to give professional policy guidance, and to supervise and to serve the economic activities of the enterprises in accordance with state principles, policies, and plans. Retained foreign exchange results from enterprises being in charge of producing exports or being in charge of foreign trade imports and exports. It does not result from any value directly created by the supervision or labor of departments in charge of enterprise administration. The foreign exchange retention obtained by departments in charge of enterprises lacks a theoretical basis. It should therefore be eliminated.

c) Uniform foreign exchange retention standards. From now on, except for implementing preferential proportional standards of retention to foster newly developing export industries and products whose supply exceeds demand domestically but which are salable on the international market, the other industries, without distinction as to region or product, will uniformly implement the 2-8 share system for returning what exceeds the plan. The "granting of authority but not granting benefit" is the only allowance that can be made for specific regions which have a large effect on the development of the national economy.

B. Improving and strengthening state foreign trade administration and management are basic guarantees for perfecting the contract management system for foreign trade enterprises.

Since the advent of foreign trade contract management, many comrades consider the lack of effective state administration and management of foreign trade as the principle reason for the confusion in foreign trade management. Although this is true, there is a certain one-sidedness about it. As for the so-called lack of effectiveness, generally, it has only been a question of not paying close attention and not being strict enough in managing things. The lack of effectiveness did not encompass the "confusion" that existed in management itself. In fact, there was not only a problem with a lack of effectiveness that existed in our foreign trade management, there were

also such problems as not linking up management measures, not coordinating, and too many changes. Therefore, to perfect the contract management responsibility system for foreign trade enterprises, we must first of all improve and strengthen state administration and management of foreign trade.

The so-called state administration and management of foreign trade refers mainly to management of principles, policies, strategies, programs, and plans, to coordination, arrangements, and guidance by the state with regard to the organization and structure of foreign trade enterprises and with regard to market order, and to the formulation and implementation of administrative and managerial systems, measures, and methods. Because of the shortage of space, this article can only present views and suggestions on several issues directly pertaining to improving the contract management responsibility system for foreign trade enterprises.

1. If we are to strengthen the state foreign trade administrative and managerial functions, we must strengthen unified leadership and centralized management. Since the reform of foreign trade and in the wake of decentralization of foreign trade managerial authority and its transfer to the localities, the state's authority for foreign trade administration and management has constantly been chopped up and transferred downward. Departments, localities, and even some enterprises went from having no foreign trade managerial authority to having it and from having a little authority to having a great deal. In addition, the implementation in 1988 of "layered" contracts and local financial responsibility led to a worsening of the problems of having too many authorities and to management confusion. The longer it went on the worse it became. To a great extent, it weakened the central government's unified leadership and centralized management over foreign trade, thus creating widespread "confusion." Outwardly, it seemed that the enterprises were at war. Actually, it was the localities, the departments, and certain companies that had integrated the functions of the enterprise with those of government that were instigating and supporting the enterprises to do battle. The result was that the state suffered losses, the enterprises were burdened with deficits, and resources were damaged. How did this happen? The causes were multifaceted. However, in the final analysis, it was because foreign trade management authority was too decentralized, not the inevitable result of contract management for foreign trade enterprises.

Basically, foreign trade administrative and managerial authority of the central and local governments was unified and unanimous. The main task of the central government's policy of macroeconomic administration and management of foreign trade by the state was to correctly implement macroeconomic policies. The local governments, on the other hand, were the implementers and protectors of the central government's various foreign trade policies. Their main tasks were to guarantee that the central government policy decisions were thoroughly implemented in their region and to assume

responsibility for supervising and investigating enterprises for correct implementation of central principles, policies, and plans, for organizing and coordinating enterprise managerial operations, and for maintaining normal managerial order in the enterprises. As for integrating the actual conditions of their regions, they could and should formulate specific policies and plans for local foreign trade activities that are within the scope of central principles, policies, and plans to thus enable the various central policies to be better implemented. Therefore, the foreign trade administrative and managerial functions of the various levels of government actually proceed from the interests of the state and safeguard the regular order in foreign trade under a socialist commodity economy. If these functions are weakened or destroyed, there will inevitably be confusion in foreign trade. Only by strengthening the functions of state administration and management of foreign trade and strengthening unified leadership and centralized management can we fundamentally alter the disarray and ensure the gradual perfection of the contract management system for foreign trade enterprises.

If we are to strengthen the state's unified leadership and centralized management of foreign trade work, we must at present first take back a portion of the administrative and managerial policymaking authority for foreign trade from the localities, departments, and certain enterprises (companies that integrated the functions of the enterprise with those of government), including authority to examine and approve the establishment of import-export companies, of three kinds of enterprises that are either partially or wholly foreign owned, of major investment projects, and of prices for major import and export products. Second, we have to energetically encourage the practice of conducting investigations and studies and effect a democratic, scientific, and standardized process for making macroeconomic decisions to ensure that central-level decisionmaking conforms to reality, that it is adequately based on theory, that it avoids making unpredictable changes, and that it guards against too many policy changes. Third, we must gradually separate the responsibilities of government from those of the enterprise, standardize government administrative and managerial functions, and clearly distinguish the functional division of labor between the central government and the local governments, thereby guaranteeing the central government's unified leadership and centralized management over foreign trade work nationwide.

2. We must strengthen coordinated management to guarantee unity in our external dealings. We know from the experience of reforming the foreign trade system that when coordinated management is lacking there is no unity in our external dealings. What we mean here by coordinated management includes direct coordination by the central government between the various regions, indirect coordination by the central government of the managerial activities of the various types of foreign trade enterprises, and coordination by various regions of the foreign trade activities in their own regions. Direct

coordination management by the central government is effected by adjustments to pertinent policies and plans. Indirect coordination is effected by the central or local government guiding enterprises in the establishment of guild associations (commercial associations). The central government should formulate a unified foreign trade "commercial association law" (or regulations) for the entire country and issue unified provisions on the basic principles for establishing various types of foreign trade commercial associations to give foreign trade legal basis and authority and to enable them to independently carry out the management of their trade.

3. To strengthen our means of management, we have to enforce policies and maintain the authoritativeness of government organs. At present, China's principle means of administering and managing foreign trade is in its authority to examine and approve plans, quotas, permits, customs duties, newly established foreign trade organizations, and the import and export of important products and their prices, as well as enforcement and supervision by means of customs and offices with specially appointed personnel. However, because of the influence of bourgeois liberalism and certain mistaken and friction-creating managerial measures, the foregoing means of management were, in varying degrees, weakened in practice, constantly giving rise to orders not being carried out and prohibitions not being enforced. Especially after certain managerial authorities were handed down to the provinces, municipalities, and special zones, the indiscriminate issuance of permits, indiscriminate approvals for organizations, and even the buying and selling of approval documentation became quite a serious problem in these places. To a very large extent, this weakened the enforcement of state policies and the authority of state management organs. At the same time, it also severely damaged the order of the regular enterprise markets, adding fuel to the flames of the unfair competition that already existed. Therefore, we must strictly implement the state's principle means of foreign trade administration and management and restrict the extent to which various examination and approval authorities are used by centralizing these authorities in the foreign trade administrative and management departments at the central and provincial levels. We must pursue and punish according to the law units and individuals who have bypassed their leadership and exceeded their authority to issue approvals and who have taken it upon themselves to expand the use of their own authority. At the same time, we must strengthen our examination of how the various administrative and managerial means are being used in foreign trade, constantly make their utilization more scientific and timely, and pay attention to the relationships between the various managerial means and coordinate them.

C. Giving contracts a legal basis is a major link in perfecting the contract management responsibility system for foreign trade.

A prominent characteristic and major effect of the enterprise contract management responsibility system is that, by means of a contractual legal agreement, the relationship of the state with the enterprise is transformed from that of a leader with the one being led to an economic contractual relationship, thus enabling the enterprise to obtain specific operational decisionmaking authority. However, judging from the actual situation during the last two years of foreign trade enterprise contract management, the contracts signed by the enterprises and the departments responsible for their work are not only incomplete and vague, they are also extremely unfair. Essentially, a contract should express a unanimity of views by both parties. The rights and obligations of both parties should be reciprocal and fair. And both parties to a contract should have the same legal status. However, China's many current foreign trade enterprise contracts generally stipulate specific demands only for the enterprises. Obligations that the party issuing the contract (provincial and municipal economic commissions or the government) should accomplish are very rarely mentioned, even in a rudimentary way. This, in effect, transforms the contract into a special written pledge by the foreign trade enterprises to the departments in charge of their work or to the local governments. From a legal standpoint, this type of contract is essentially untenable.

To have foreign trade contracts conform to the provisions of China's economic contract law, for economic contracts to have the necessary legal effect, and to consolidate and develop the contract management responsibility system for foreign trade enterprises, I think that at present we must clarify the following issues:

1. Foreign trade management contracts must be concluded in accordance with the provisions of China's economic contract law. They must clearly list their basic provisions, and in particular, they must clearly stipulate the obligations for which the party issuing the contract should be responsible, thereby guaranteeing the fairness of the contract and conformity to legal principles.

2. Foreign trade enterprise management contracts serve as a type of charter between the enterprise and the state. To a certain extent, they transform the subordinate status of enterprises depending on state organs and divide ownership from operational authority. Therefore, after an enterprise agrees to a contract, the relationship between the state and the enterprise should be conducted on the basis of an owner-operator relationship with both parties having only the obligations and rights stipulated in the contract. Except when enterprises exceed the operational scope legally stipulated and violate the provisions of state policies, the departments in charge of their work cannot indiscriminately use administrative means to intervene. Otherwise, enterprises have the right to refuse, or to bypass their immediate leadership to make this known, or even to appeal to the economic court.

3. In deciding contract targets, the differing situations should be taken into account, they should be practical and realistic, they should conform to the reality of the enterprise, and they should allow for unforeseen circumstances. The performance rate for targets of foreign trade contracts now in force has been set at 96 percent, which is relatively high. Most enterprises find this difficult to achieve. Contrariwise, when the renminbi exchange rate is high, the costs in terms of foreign exchange and the loss compensation targets are set relatively low. This is unrealistic. At the same time, the targets for the foreign exchange received and the foreign exchange handed over to the state, which should be treated as constant quantities, are in fact treated as variable quantities, and the costs in terms of foreign exchange and loss compensation targets, which should be treated as variable quantities, are treated as constant quantities. This is not realistic. This misplacement and interchange of constant quantities and variable quantities have caused a year by year escalation of difficulties for enterprise contract management and a growth in a passive fear of difficulties which has affected the enthusiasm of enterprises for exports.

I think that, first, the determination of foreign trade contract targets should be based on the foreign and domestic prices, costs, and the actual operational levels for the previous three years with respect to different categories of products and that consideration should be given to the prices, costs, and the operational achievement of products of the same category from different regions. Second, we should eliminate the provision that contract managers not be changed for three years. If for two years of the three-year period contract targets are not fulfilled, the manager and deputy manager should be relieved of their duties and all the bonuses and part of the monthly salaries of the manager, deputy manager, and others should be forfeited. This would not only exert real pressure on the enterprises, it would also make it possible to put enterprise management on a long-range footing, to properly grasp the present situation, to overcome short-term conduct, as well as closely link the economic interests of the workers and staff with the interests of the enterprise, enhance employee enthusiasm, and increase enterprise unity. Third, we should eliminate the use of costs in terms of foreign exchange and loss compensation targets and adopt a three-category contract target system for export foreign exchange received, for foreign exchange handed over to the state, and for the profit and loss rate for funds. The reason we have used the profit and loss rate for funds to replace the costs in terms of foreign exchange and loss compensation targets is because the profit and loss rate for funds can accurately and objectively reflect the actual operational achievements of an enterprise and its operational level. It also avoids the complex problem of calculating cost targets and the problem of falsifying costs by indiscriminate additions. The determination of the profit and loss rate for funds should be based on the total amount of what has been approved as fully ample for operating funds and calculated on the average figures for the funds profit and losses amounts produced by the

enterprise's actual operating results for the previous three years. This way, although the state has to provide enterprises with what are determined to be adequate banking funds and loans and cancel that portion of funds which were necessary for loss compensation, its nature and significance are completely different. After the profit and loss for funds rate has been adopted, the enterprise will use loans and funds to "compensate losses," where previously the losses were compensated by the state financial administration. For the former, funds are taken into account in the overall planning of the enterprises. For the latter, there is an item-by-item allocation according to purchases made by the enterprises. The former ensures that enterprises will no longer wear the "loss" hat, while the latter ensures that the enterprise loss burden will become ever greater. In addition, the determination of the profit and loss rate for funds is relatively easy to grasp, and it is more realistic and fairer than were the previous costs in terms of foreign exchange and loss compensation targets, which did not change for three years. Enterprises will find the former easy to accept.

D. Intensifying the internal reform of enterprises is crucial to perfecting the contract management responsibility system for foreign trade enterprises.

In the above, we have analyzed and discussed several of the major, external environmental factors needed for enterprise contract management. These environmental factors and their integration are important preconditions for doing a good job of enterprise contract management. However, if the operational mechanisms of the enterprise itself are not sound, then the external operational conditions are of no use even though they are good. Since perfecting the contract management responsibility system for enterprises still hinges on intensifying the internal reform of enterprises, we must, by focusing on perfecting and implementing enterprise authorities, responsibilities, and rights and their relationship to each other, make across-the-board adjustments and reorganizations of the internal mechanisms of enterprises.

1. Selecting enterprise management on the basis of opening contracts up to bids would enable foreign trade enterprise managers (plant directors) to become modern entrepreneurs who are highly professional, skilled in management, willing to bring forth new ideas, and adherents of the socialist road and who possess independent managerial decisionmaking power. For this purpose, the state must set forth the principles for managing the main aspects of the specific procedures, the bids, and the qualifications of those making the bids. After the proper experience has been gained, it must formulate a "law governing contract bidding for foreign trade enterprises" in China to ensure that enterprise contract bidding is done systemically and legally. After these new enterprise managers are produced, the enterprises still must adopt a method of competitive bidding contracts to select leading cadres for the various administrative and technical offices. We must define qualifying standards for ordinary professional personnel and adopt integrated

methods to verify work results and tests in scientific subjects in order to standardize hiring.

2. Setting up an all-personnel contract for risk mortgage would closely link the fate of the workers and staff with that of the enterprise. Ordinarily, an all-personnel contract for risk mortgage should be combined with a competitive bidding contract. In principle, the mortgage targets would be set each year, and year by year the mortgage money would increase. After the mortgage expires, if the enterprise made a profit, the mortgage money could be added to the distribution of profits. If the enterprise lost money or the workers and staff caused the enterprise high losses, the mortgage money would be used to offset these losses. The amount of mortgage money could be based on how much authority and responsibility the manager, deputy manager, the section chiefs, the professional personnel, and cadres in all the administrative and technical offices had in export professional operations and allocated according to each one's respective grade. Workers and staff would take part in the distribution of profits or be responsible for offsetting losses according to the amount of mortgage money. In this way, the responsibilities, authority, and benefits of the enterprise could be fixed for each employee. It should be stressed that, after the enterprise has put competitive bidding contracts and risk mortgages for all personnel into effect, it must fully implement the principle of "responsibility is determined by authority, and benefit is decided by responsibility" in order to effect fair distribution.

3. We should set up sound economic supervision structures within enterprises and strengthen supervisory mechanisms. For this purpose, first we must strengthen party leadership over the enterprises to guarantee that the enterprises conscientiously carry out party and government principles and policies and uphold the socialist orientation. Second, we must set up a strong conference system of worker and staff representatives from enterprises to establish for workers and staff their status as masters in the enterprise and their supervisory function over various aspects. The enterprise trade union chairman must be elected at a mass meeting of enterprise workers and staff or at a mass meeting of worker and staff representatives. If the trade union chairman is not honest in performing his official duties or cannot represent the majority of the workers and staff, the worker and staff mass meetings or the mass meetings of the representatives of the workers and staff will have the authority to recall him at any time. Enterprise trade unions definitely must conscientiously make the most of their function to unify and instruct the masses of workers and staff to vigorously implement party and state principles and policies and work hard to complete the work for which each of them is responsible. After the trade union is established, the main problems of the enterprise must be thoroughly discussed at mass meetings of workers and staff or at mass meetings of worker and staff representatives in order to fully bring into play supervisory function of the trade union organization. Third, we must

strengthen the internal auditing work of the enterprises and strictly enforce the financial auditing system to ensure that enterprise funds are used legally and sensibly. We must promptly uncover problems of graft and bribe taking, the diversion of enterprise funds for entertainment purposes, profiteering, and the use of one's position for private gain, and we must strictly deal with these problems and not be overlenient.

4. We should set up enterprise information systems to enhance operational decision-making standards. The soundness and strength of the mechanisms of an enterprise's information system—which are in effect the nervous system of the enterprise—have a decisive significance on the success or failure of an enterprise's operational decisionmaking and, consequently, on whether an enterprise fulfills and overfulfills its contract obligations. At present, the majority of China's foreign trade enterprise information systems are unsound and lack strength. The reason many foreign trade enterprises constantly make purchases blindly, accumulate excessive reserves of export products, and are duped and cheated in the import-export trade is because their information is invalid or because they lack direct links to market forecasts or because the market forecasts are inaccurate.

If we are to set up a sound foreign trade enterprise information system, first we must set up a specialized commercial information organization and deploy specialists and modern means and equipment which will enhance our ability to collect, collate, and transmit the information. At the same time, we must open up foreign channels of information and set up a network of foreign sources of information to enhance the timeliness, usefulness, and effectiveness of our information. Second, all foreign sales personnel must simultaneously serve as information personnel. After they have returned from sales trips abroad, they must bring back useful information. Third, the operational decisionmaking at the leadership level must be done democratically, scientifically, and procedurally. When they lack a complete informational base, they must make a decision. Fourth, we must set up a data base for enterprises on international trade. Important information must be accumulated for a long period, special topics researched, and forecasts made. Fifth, we must train specialists in commercial information, enhance their specialized skills, and integrate their analytical abilities.

5. We must strengthen enterprise management and enhance enterprise efficiency. In intensifying the internal reform of enterprises, we must be careful not to use the contract as a substitute for management. After a contract is effected, we must pay close attention to building the enterprise's decisionmaking system, its motive-force system, its supervisory system, its assignment system, its information system, its organizational system, and its service system and we must work out separate managerial methods for each system, mutually adjust and coordinate them, and bring into full play the managerial function of each one. At the same time, we also must strengthen the professional examination and



supervision of each worker and staff member, strengthen ideological and political work among them, and provide them with professional training in order to enhance their political and professional qualifications and their foreign language capabilities.

6. We must, while adhering to the socialist system of public ownership, vigorously explore and develop foreign trade enterprises of the Sino-foreign joint-venture type, the Sino-foreign contractual joint-venture type, and shareholding system type, which are distinguished by having integrated industry with trade, technology with trade, products with trade, and agriculture with trade, and we must full mobilize their enthusiasm for exports, enhance product quality, reduce costs, and strengthen the competitiveness of exports.

### **MOFERT Official on Intellectual Property Protection**

90CE0182A Beijing GUOJI SHANGBAO in Chinese  
21 Apr 90 p 1

[Interview with Yuan Zhenmin (5913 2182 3046), director of the Treaties and Law Department, Ministry of Foreign Economic Relations and Trade (MOFERT), by Reporter Li Zhaofen (2621 5128 5358): "Yuan Zhenmin Says That the Intellectual Property Rights of U.S. Businessmen in the PRC Will Receive Protection"; date, place, and occasion not given]

[Text] As protection of intellectual property rights in PRC-U.S. trade is now under discussion, I recently held an interview with Yuan Zhenmin, director of the MOFERT Treaties and Law Department, in which we carried out the following dialogue.

[Li Zhaofen] Does the PRC have any protection for intellectual property rights?

[Yuan Zhaofen] The government of the PRC has always emphasized protection of intellectual property rights, and is striving to perfect relevant legislation. The PRC has the following measures in effect to protect intellectual property rights:

1. We have legislation. Since the policy of opening up to the outside world went into effect in 1979, the PRC has issued the "Trademark Law," the "Patent Law," and the "Technology Import Contract Management Regulations," which give legal protection to trademark rights, patent rights, and commercial secrecy. The "PRC Civil Law General Rules" protect intellectual property rights as a civil right. Along with reinforcing our domestic legislation, the PRC has taken an active part in the activities of the World Intellectual Property-Rights Organization (WIPO), joined WIPO, the Paris Treaty on Protection of Industrial Property Rights, and the Madrid Accord on International Trademark Registration, and worked hard to bring PRC laws on protection of intellectual property rights closely into line with current international practice.

2. We give protection through contracts. The PRC is now using contract provisions to protect medical products and substances derived through chemical means (not including chemical mixtures, alloys, catalysts, or paint), which the provisions of our patent laws now clearly do not grant protection to, as well as patented technology and computer software which the PRC does not yet have legislation to protect. (Draft regulations on computer software protection are now being drawn up.) Once receivers commit themselves in contracts to maintain secrecy, they must fulfil their obligations.

3. Our judicial organs at all levels impose legal sanctions on those who infringe on rights. Until the PRC issues a copyright law, all concerned courts are trying cases of copyright disputes according to Chapter 5, Articles 94 through 97, of the "Civil Law General Rules." In addition, in the course of checking and approving registered trademarks and enforcing administration, PRC industrial-commercial administrative organs are also giving strong protection to foreign trademarks according to the relevant provisions of the "PRC Trademark Law."

4. We carry out widespread publicity and training to emphasize protection of intellectual property rights. MOFERT alone has held three national conferences to publicize the importance of, and laws relating to, the protection of intellectual property rights, and to introduce to foreign trade cadres at all levels the recent round of GATT negotiations and talks on intellectual property rights relating to trade. This has achieved notable results in disseminating and teaching intellectual property rights laws.

[Li Zhaofen] How is PRC intellectual property rights legislation coming along? Is it going faster or slower than in other countries?

[Yuan Zhaofen] The State Council has now completed deliberations on a copyright law draft, which it submitted to the Standing Committee of the National People's Congress for examination and approval in December 1989. The basic spirit of the copyright law draft is also applicable to computer software protection. As computer software has certain peculiarities, other special regulations have been drawn up to protect it. Close attention is now being paid to drawing up patent law draft amendments. PRC intellectual property rights legislation is going fast in relation to China's national conditions and the history of international legislative development. As to patent protection, although the United States had established a patent system as long ago as 1790, it did not grant patent protection to chemical substances until about 160 years later in 1952, and only extended its means of patent service to directly derived products almost 200 years later in August 1988. As the PRC's patent system has been established and in effect for only a little over five years, it is unrealistic to demand that it be as perfect as the patent systems in developed countries in such a short period of time. Moreover, the PRC's legislative progress has been much faster than that of many countries.

[Li Zhaofen] Have consultations been held between the PRC and the United States on intellectual property rights protection?

[Yuan Zhaofen] Many consultations have been held between the PRC and the United States on intellectual property rights protection. Through honest and trustworthy bilateral talks, our friends in the United States have come to understand the progress that the PRC has made in this area. We hope that the mutual understanding and trust between the PRC and the United States can be enhanced, so that the smooth progress between our countries in foreign economic relations, trade, and S&T cooperation can be speeded up.

### **Development of Countertrade Urged To Aid Exports**

90CE0029A Beijing GUOJI MAOYI WENTI  
[INTERNATIONAL TRADE JOURNAL] in Chinese  
No 2, 28 Feb 90 pp 45-48

[Article by Sun Jingde (1327 2417 1795)]

[Excerpts] Countertrade has developed from the traditional trade base of bartering. It is one variety of exchanging goods with goods. Countertrade [duideng maoyi] is also termed countertrade [duixiao maoyi]. The scope of transactions is broad, and the methods are flexible and varied. Besides the main form of countertrade carried out through the exchange of goods, one can also use labor services or rights and interests, which includes technology and equipment, patent and trademark rights, marketing assistance and various services to engage in flexibly integrated import and export trade. It includes barter trade, counterpurchase, compensation trade, and multilateral switches. At present, more than 100 countries and regions use this type of trade activity. The countertrade figure now accounts for more than 20 percent of gross global trade value. According to U.S. Department of Commerce statistics, by the year 2000, this figure will reach approximately 50 percent. [passage omitted]

#### *C. Several Issues for Improving China's Countertrade*

China still must introduce a large quantity of foreign advanced technology and equipment to equip and renovate our own productive enterprises in line with the continuous deepening of reform and opening to the outside world, and the need for the "four modernizations." However, although China at present and consistently has had an enormous favorable balance of trade with the major Western industrial advanced nations, on the other hand certain Western countries still have enacted temporary economic sanctions against China. This will inevitably affect the development of trade. Therefore, besides striving to find new channels of trade at present, China also should actively utilize countertrade to resolve our foreign exchange shortage difficulties. Then we can also expand exports, shrink the trade deficit, and maintain a trade balance.

Countertrade has a certain comprehensiveness and complexity. Moreover, this type of trade activity is not always engaged in by a single industry or foreign trade company. It is often difficult to match regulations to China's import-export enterprises' economic accounting and to the business divisions of China's foreign trade enterprises. Thus, we must improve and resolve the following problems:

1. Every province and municipality throughout the country should set up appropriate authoritative coordinating organs to work together with Chinese commercial organizations abroad, and establish countertrade sales promotion and consulting services networks as well as corresponding research organizations. Then we should allow the coordinating organizations to take the lead and uniformly arrange for various relevant foreign trade enterprises to participate in concrete business negotiations.

2. Economic trade departments should formulate countertrade management regulations to permit various provinces and municipalities to develop countertrade jointly or independently. Using lists of locally needed import commodities, the provinces and municipalities should develop countertrade by coordinating with organizations to take the whole situation into account and plan accordingly.

3. We should make full use of the advantageous conditions provided by imported equipment and technology that is needed by various industrial departments or productive enterprises. Each coordinating organization concerned ought to take the lead in joining up with others to have unified arrangements. They should unite with the concerned foreign trade companies to participate in negotiations and conduct business. Then once trade is conducted they can separately engage in an actual division of labor according to contract.

4. Pricing and other countertrade transaction matters should be turned in to concerned coordinating departments in a timely manner. Coordinating departments should make timely summarized notifications to each concerned industry or department.

5. We should distinguish among different countries, regions, and trade partners. In addition to continuing to use the common bartering, we should also actively use counterpurchasing, multilateral switching, and other new flexible countertrade methods to open markets and expand the scope of trade.

6. Countertrade has both a flexible and a specific nature. Therefore, we should utilize flexible and reliable payment methods. We had better use bilateral binding payment methods through banking establishments such as reciprocal letters of credit or back-to-back letters of credit.

Every year China uses a great volume of foreign exchange to purchase foreign machinery, equipment,

and raw materials. We should use this as a [bargaining] chip and give priority to uniformly considering countertrade.

In summary, the aim of developing countertrade is to expand exports of China's products. Therefore, countertrade should be based on exports. In line with the continuous development of global economic trade, as well as the gradual formation of regional unified markets and trade blocs, the future for countertrade looks lively and full of new developments.

### Anhui Sets Preferential Policy for Foreign Investors

90CE0182B Beijing GUOJI SHANGBAO in Chinese  
21 Apr 90 p 1

[Article: "Anhui Province Announces Preferential Policies for All Foreign Investors at a Press Conference Held in Beijing To Welcome Foreign-Invested Projects"]

[Text] The Anhui Province Foreign Economic Relations and Trade Commission held a press conference in Beijing on 20 April 1990 to welcome foreign-invested projects. Wang Qinghua [3769 3237 5478], chairman of the Anhui Province Foreign Economic Relations and Trade Commission, gave a briefing at the press conference on the condition of Anhui Province's foreign economic relations and trade developments in the last decade of reform and opening up to the outside world and, on behalf of the government of Anhui Province, announced preferential policies for all foreign investors and 120 projects that will use foreign investment.

All of these projects have undergone economic and technical demonstrations and complete feasibility studies, and most are small ones. Anhui Province is also granting the following preferential treatment to joint ventures within local jurisdiction:

1. After their state-stipulated five-year reduction or exemption from enterprise income taxes expires, joint ventures will continue to be exempt from three percent of local income taxes.
2. Foreign-invested enterprises that are experiencing difficulties will be granted reductions in or exemptions from car and boat license plate and real estate taxes, and will be exempt from communications power and other local taxes.
3. Foreign-invested enterprises will enjoy the same treatment as recently built state-owned enterprises in the areas of energy credit and raw materials supplies.
4. Upon application and approval, foreign-invested enterprises will be allowed to export on their own, or commission special companies to export on their behalf, class-3 nonlicensed commodities.
5. Enterprises which export products or have advanced technology will be granted reductions in space development and use fees.

### Exports Rise 2.1 Percent in May

OW0906090490 Beijing XINHUA in English  
0702 GMT 9 Jun 90

[Text] Beijing, June 9 (XINHUA)—Customs statistics show that China's exports reached 4.96 billion U.S. dollars in May, a 2.1 percent increase over the same month last year.

Imports totalled 4.58 billion U.S. dollars, a 13.9 percent drop compared with the same month last year.

Imports and exports totaled 9.54 billion U.S. dollars, a 2.1 percent decrease from a year ago.

Exports of major textile products continued to increase and exports of household electrical appliances grew by more than 20 percent.

## POPULATION

### Rural Population Control Lags in Henan

90CE0110A Zhengzhou HENAN RIBAO in Chinese  
30 Mar 90 p 3

[Article by Mo Qi (6289 3823), professor at Henan University: "Control the Growth of Rural Population More Effectively"]

[Text] Henan is a large agricultural province, and over 80 percent of its 82 million-plus population live in rural areas. After the implementation of the household output-related contract responsibility system in rural areas, the family became the production unit and needs manpower. So peasants want to have more children, and their desire to have boys is particularly strong. Since the Third Plenary Session of the 11th CPC Central Committee, peasants have generally enhanced their understanding of the basic national policy in family planning, but in actual enforcement they still have a long way to go in meeting the demands of the CPC Central Committee. According to the results of a sample survey conducted in 1988 on Henan Province's 2-per-thousand birth control target, all of Henan's major population control indexes lagged behind the national average level. In 1987, Henan's birth rate was 26.5 percent, 2.79 percentage points higher than the 23.26 percent of the national average; natural population growth was 19.42 percent, 3.26 percentage points higher than the 16.16 percent national average; the two-children rate was 36.13 percent, 3.8 percentage points higher than the 32.33 percent national average; the multiple-children rate was 16.16 percent, 1.21 percentage points higher than the 14.95 percent national average; women's total child-bearing rate was 0.47 percentage points higher than the 2.59 percent of the national average and ranking 24th in the nation. This shows that presently, the actual child-bearing situation of Henan women is that except for urban areas where most women can conform to the goal of having only one child, the overwhelming majority of rural women have given birth to two children, and some

have had three or more. Under these circumstances, if Henan Province fails to effectively control the rural population during the third birth peaks, it would become very difficult to fulfill the goal of keeping population under 89.9 million by the year 2000. Consequently, it would further affect the progress of Henan's socialist modernization and the improvement of material and cultural living standards. Because of this, more effective control of Henan's rural population growth rate and improvement in the quality of population is an extremely important issue for the development strategy of Henan's national economy.

The population issue is essentially also an economic issue. To resolve the population issue once and for all, we must vigorously develop the economy and, in light of various rural reforms, adopt comprehensive measures to resolve it.

First, we should increase investment in agricultural production, vigorously promote the renewal of agricultural production technology, strive to develop the productive force of agriculture, thus suppressing the motive force of rural population growth. Under the traditional pattern of agricultural economic growth, in order to develop production to free themselves from poverty and become rich, peasants rely on having more children to increase labor. This motivation has caused the trend of continuously growing rural population to fail to be curbed permanently. Therefore, the key to the effective control of rural population growth is to suppress this motivation. For this we must increase the technological investment of agriculture, speed up the application and popularization of agricultural science and technology, gradually promote intensive farming and appropriate scale farming, save the input of animated labor, and reduce the ratio of labor input in the total input of agricultural production so as to gradually weaken peasants' behavior of having more children.

Second, we should vigorously develop educational undertakings and continue to improve the quality of rural population. Enhancing the cultural and scientific knowledge of women of child-bearing age, in particular, has great effect on changing people's concept about having children and on reducing birth rate. Investigation results show that child-bearing-age women of different education levels have different numbers of birth. The higher the education level, the smaller the number of births. Related statistics show that child-bearing-age women of college education do not have multiple births; 0.05 percent of women of high school education, 0.067 percent of women of middle school education, and 1.2 percent of women of grade school education, and 2.2 percent of semi-illiterate and illiterate women have more than 3 births. Currently urban women have a higher education level, forming a sharp contrast with rural areas. Because of this, it is especially important to improve the cultural quality of rural women. This not only can increase their awareness of family planning but also can expand their employment opportunity, raise

their economic and social status, overcome the traditional concept of child-bearing, and better grasp the knowledge of birth control, contraception, and eugenics.

In view of the situation that the cultural quality of Henan's population (especially rural population) is low, from now on we should try to increase, if conditions in all fields permit, urban, and especially rural, educational funds so as to continue to increase the quality of population and reduce the birth rate of population through vigorously developing education.

Third, we should change once and for all the distribution and employment systems that combine "people and labor" and have the characteristics of a ration system, speed up the progress of rural commercialization, charge a fee for the use of farmland, commercialize housing areas, change the free, ration-style distribution method of farmland and housing areas, and change the pattern of linear increase of "population—housing areas." This will make peasant families feel the squeeze of farmland and housing whenever a new member is added and realize that it is "not economical" to have many children, thus restricting their behavior of having more children.

Fourth, we should vigorously promote the practice of closely integrating the efforts to help the poor with family planning work. The phenomenon that "the poorer the people, the more children they have; the more children they have, the poorer they become" is common in impoverished areas. To reverse this vicious circle of population ecology, we should try our best to help poor families in impoverished areas in regard to financial, material, and human resources. Especially we need to combine our efforts to help the poor with science and technology with family planning work to enable the broad masses of peasants to understand in real life that households with limited labor can get rid of poverty as long as they have a high standard of production technology, learn scientific farming, and practice a diversified economy.

Fifth, we should strengthen service and protection mechanisms to relieve peasants of their fear in the future. Currently peasants have two fears about family planning. One is that one child may not survive; the other is that they will have nobody to support them in their old age if they have only a few children. To eliminate these fears, we must proceed from the reality of rural areas and establish and perfect a series of protection mechanisms such as only-child insurance, old-age insurance, and health insurance, so as to facilitate family planning work.

Of course, since rural economic development needs to go through a process, to promote family planning in rural areas, we should adopt administrative measures in addition to economic means and measures.

## TRANSPORTATION

### New Freight Train Completes Trial Run in Tianjin

OW2405192390 Beijing XINHUA in English  
1520 GMT 24 May 90

[Text] Tianjin, May 24 (XINHUA)—A 10,000-ton train, the first of its kind in China, today arrived at the coal terminal in Qinhuangdao City, Hebei Province, after completing a trial run.

The trial run was on the Datong-Qinhuangdao railway, which was built for the transportation of coal from Shanxi Province.

The locomotive pulled 123 open freight cars, and the whole train totalled more than 1,680 m in length.

The journey covered 635 km, from the Luoliwan coal distribution center in Shanxi, China's leading coal producer.

It is learned that nine more such trains will be put into trial operation soon.

### Tangshan Port Work Continues, Rail Line Completed

OW1705114490 Beijing XINHUA in English  
0951 GMT 15 May 90

[Summary] Shijiazhuang, May 15 (XINHUA)—Construction of the port at Tangshan City in Hebei Province is well under way, with completion of two 5,000-dwt berths expected by next year. The port is also scheduled to have another six berths with capacities between 10,000 dwt and 35,000 dwt.

The railway linking downtown Tangshan and the port has opened for service, high-tension lines have been installed, and a waterworks is being built at the port. The city also plans to build an iron and steel company, power plant, and export processing zone.

### Container Shipping Records 20-Percent Increase

OW0206212690 Beijing XINHUA in English  
1435 GMT 2 Jun 90

[Text] Tianjin, June 2 (XINHUA)—China's container throughput increased 20 percent in the first five months this year, according to reports at a meeting on container shipping which closed here today.

Wang Xiaomei, an official of the Ministry of Communications, said China's ports handled 1.17 million standard containers in 1989, 23 percent of the total cargo handled.

She said China started container shipping in 1973. There are now 24 harbors handling containers, including seven specialized harbors and 18 special berths.

More than 30 Chinese shipping companies with 114 vessels are engaged in container shipping.

Container transport has also been extended to inland areas by railways and highways.

Tianjin Port, the pioneer of China's container shipping, has an annual handling capacity of 400,000 containers.

### Shipping Industry Reports Growth

HK1206054590 Beijing CHINA DAILY in English  
11 Jun 90 p 1

[Text] Despite a brief lull following the June Turmoil last year, China's ocean shipping business grew in both transportation volume and cargo handling capacity in 1989, shipping officials said last week.

By the end of 1989, the China Ocean Shipping Agency had used 46,000 domestic and foreign ocean-going ships in its freight operations, an increase of 11 percent from 1988 figures. The total cargo handled by the agency last year reached 179 million tons. At the same time, four new branch agencies were established, China Daily was told.

Last year, according to Cao Zang, general manager of the agency's business department, the agency contracted the use of 82,300 containers of cargo and 3.7 million tons of general cargo, and undertook 7.7 million tons of cargo for clients both at home and abroad. The number of containers increased by 58 percent and the cargo undertaken increased by 45 percent from the previous year.

As a result, the agency made 25 million yuan (\$5.3 million) more than in 1988.

The State-run agency, which has a monopoly on many port services for Chinese and foreign ocean-going ships, established branches in Harbin, Jinzhou, Shidao and Wuzhou cities in 1989.

"Now we have 48 branch agencies and 3,000 employees across the country in all ports opening to the outside world. Our Agency has, in fact, become one of the largest ocean-going agencies in the world," said the general manager.

## PRC MEDIA ON FOREIGN ECONOMIES

### Lessons From GDR on External Debt Management

90CE0026A Beijing JINGJI KEXUE [ECONOMIC SCIENCE] in Chinese No 1, 20 Feb 90 pp 73-77

[Article by Ren Huizhong (0117 2585 0022) of the Zhejiang Metallurgical Economic Training School: "The GDR's External Debt Management and Its Lessons for China"]

[Excerpts] The eruption of an international debt crisis has posed many new questions for China in the management of its foreign debts. The lessons for China from the debt crisis are: foreign debts are easily borrowed but difficult to repay; if they are not forcefully controlled, are handled imperfectly or applied unequally, then they not only cannot be put to positive use in development of the

national economy, they can carry with them some disastrous consequences. On the other hand, nations that have successfully handled foreign debts supply China with these lessons from their experience: draft a macroeconomic plan for foreign debt management which is in accord with national conditions as well as conforming to formative changes in international economics and finance; establish and perfect a national foreign debt management structure and system; and strengthen the nation's control and management of foreign debts. These are the bases for making successful use of foreign loans, as well as guaranteeing avoidance of the dangers of debt liabilities.

Since China began its policy of openness to the outside in 1979, foreign borrowing has grown on a great scale. By the end of 1988, the total foreign debt amounted to \$35.059 million.<sup>1</sup> At the beginning of the 1990's, China will be confronted with the peak period of debt repayment. By 1993, the rate of debt repayment with interest will be approximately 25 percent, surpassing the 20 percent figure generally recognized internationally as the danger line for debt liabilities. Even though China and the German Democratic Republic (GDR) differ in their national characteristics, and there still exists a definite gap in our economic levels, the two nations are both socialist, and both have devoted themselves to applying foreign debts to further their own economic development. For these reasons, serious study of the GDR's foreign debt management problems, drawing lessons from their experiences, will undoubtedly be of great benefit in progressively strengthening and improving China's own foreign debt management, and help us to avoid sliding into the liabilities of indebtedness. [passage omitted]

## II

Study and analysis of the GDR's foreign debt management can provide China with the following lessons:

1. Establish and perfect a unified foreign debt management structure, conscientiously strengthening the macroeconomic management of foreign debts. At present, in China's management of foreign debts, the chief existing problems are many debts, many borrowing channels, dispersed management, and lack of a structure for practicing unified management of foreign debts. Moreover, China's success or failure in foreign debt management hinges on whether there is a structure for unified management of those debts. The GDR's way of managing its foreign debts successfully was in general to establish this unified management structure under its Ministry of Finance. Therefore, China should establish a national foreign debt management commission, which would be authorized by the State Council, guided by the Ministry of Finance, and drawing in participation by relevant ministries and commissions. Its structure for the conduct of day-to-day business will be set up under the Ministry of Finance. However, the bulk of the responsibilities should lie with the national foreign debt management commission: according to the national strategy for economic development and China's industrial

policy, we should implement a unified strategy for foreign debt management and formulate an overall model and structure for foreign debts; draw up a strategy for foreign debts, and draw up plans (including long, medium, and short term plans), policies and regulations for foreign indebtedness; control the direction of foreign debts, regulating their model; clarify the foreign debt structure, loan usage and repayment methods, as well as the responsibilities, rights and mission of those people who apply the foreign loans; consider and decide upon repayment rates and responsibilities as well as repayment measures; strengthen foreign debt statistics, forecasts and supervision. Carry out a complete feasibility analysis of loan volume, opportunities, forms and sources: bring under the control of China the overall situation and developmental trends of its foreign borrowing, determining foreign debt projects by feasibility studies and appraisals. Submit the proposals of every sector, every locality to overall examination and approval, including preparing for examination and approval of qualifications and examining disputes where they may arise. This will strengthen the nation's macroeconomic control and regulation of foreign debts, and help avoid the present situation of everyone managing poorly, and avoid the possible occurrence of the dangers of liabilities.

2. Assuming a concentrated foreign debt management, implement a layered management, and thereby bring about a unification of macroeconomic control and operations. Conduct studies to determine where there has been unequal development in China's various localities, what economic benefits have been realized from the various loans, what risks were involved while incurring various debts. Consequently, China's foreign debt management should be appropriately concentrated and unified. However, the specific management model should be flexible, divided into administrative levels, so that it will match the characteristics of each locality, mobilizing each aspect positively. Therefore, China's foreign debt management should reflect four types of indebtedness: those of the nation, the localities, the enterprises, and the banks, with these types reflecting the different ways management is carried out. The nation's foreign debt management can be linked up with the nation's reserves of foreign exchange, the reserves being a repayment backup. The localities' foreign debt management can be paired with their own foreign exchange reserves, including both those supplied by central authorities and the exchange accumulated by the localities themselves, with the their exchange serving as the repayment backup. The enterprises' foreign debt management can be paired with the enterprises' own ability to earn foreign exchange, strictly supervised. The foreign debt management of the banks should be the domestic economy's need for foreign loans and its ability to bear them organically connected with the banks' ability to raise funds through foreign loans, and their ability to repay, on the principle of balancing their own needs with their ability to act on their own initiative.

3. Regulate the debt structure. The experience of the GDR indicates that a rational debt management structure is a guard against a peak concentration of repayment, avoiding the chief factors in repayment difficulties. The repayment structure China has now is totally illogical, with many dangers. Consequently, the measures China should take for its regulated debt structure are: first of all, strictly control private indebtedness. Although it is easier for the private sector to raise funds by borrowing, still, if there are too many of these foreign debts, or the burden excessive, it often leads to the debts getting out of control. Therefore, there must soon be a change in the present situation of unmanaged private debts, adopting firm measures to strictly control private foreign debts, lowering that type of debt's proportion of the total volume of foreign debts, and earnestly striving for official debts. Second, adopt measures which spread out the time limits for repayment of foreign debts, making every effort to have a rational composition for medium-, long-, and short-term debts, avoiding the occurrence of having repayment periods too clustered together and peaking too early. Especially, guard against having the peak repayment period come at a time when the world's economy is in decline and in a dangerous period, keeping foreign debt funds accordingly stable. Finally, the debt repayment periods should be matched up with the periods when there will be returns on investments, in order to avoid having debt repayment periods too short while investment return periods are too long, and thereby creating repayment difficulties. Furthermore, China could follow the example of the United States, implementing debt capitalization by converting debts into direct investment in China. Doing it this way could lighten China's debt burden, increase China's debt reliability; indirectly it could increase foreign nations' investment in China, advance the development of the domestic economy, and help raise China's ability to repay its foreign debts. China should now start discussions of this sort, and formulate relevant policies and legal clauses, which can definitely be favorable to those foreign firms that were already doing things this way, but can also guarantee China's profits.

4. Scientifically guide investment of foreign loans. The principle and interest on foreign loans must be repaid; this is a fundamental characteristic and functional requirement of loan capital circulation. In order to enhance the economic benefits deriving from foreign loans and ensure the timely repayment of these debts, learn from the GDR's experience: according to China's realities of recent years, we should make improvement of our industrial structure the goal, and scientifically guide the investment of foreign loans. This is because a rational industrial structure is essential to guaranteeing continued, stable development of China's economy. Foreign loans act as an important production element, and when they are put into China's economy, they will inevitably have a major impact on the industrial structure. Foreign loans of the same type, because of their different investment paths, will often have differing impacts upon industrial structure. To effectively

improve the industrial structure, China will in the future continue to use part of its foreign loans to indirectly advance such projects as energy resources, communications and transportation, natural resources, etc., for use in producing foreign trade exports. At the same time, we should progressively turn to an emphasis on using these for projects which will directly expand foreign trade exports and large quantities of replacement exports. Guide foreign loans into projects of the advanced technology type or which will earn foreign exchange, as well as for the technological transformation of existing enterprises. Apply them to projects that entail progress in electrical technology, projects that can produce large supplies of imported supplementary materials and complement domestic industries, seriously restricting the proportion of foreign loans going into unproductive or especially costly areas. This is determined by the quality and characteristics of the foreign loans, even if used to repay principal and interest. At the same time, China should bring foreign loans closely into line with plans for development of the national economy and society. Like the GDR, stipulate clearly that encouraging or permitting, prohibiting or restricting to whatever industries foreign loans are applied, will be done through formulation of policies and decrees, and will be submitted to timely control and guidance from governmental, economic, technical and legal aspects. This will organically integrate foreign loan guidance with the state plan, and thereby ensure that after each foreign loan is invested, it can bring about equilibrium in foreign exchange where there is a surplus, and guarantee that the income from investment of foreign loans will be greater than the loan costs, even if the profits from investing the loans are greater than the total amount of repaid capital and interest, fostering a good foreign loan cycle.

5. There must be foreign debt legislation. The experience of the GDR in governing foreign loans demonstrates that legislation is an important measure if the liabilities of indebtedness are to be avoided. Though China currently has over 200 laws and regulations concerned with attracting foreign commercial investment, there still is, at present, no legislation on foreign loans. All we have are the various functional departments formulating some procedures according to their own management requirements, which complicates foreign loan management, creating the phenomenon whereby each does things in their own way, overlapping one another. At the same time, this also creates a burden for the localities, and causes them a great many difficulties. China's lack of foreign loan legislation has created an abnormal situation whereby there is no domestic management process, so that when a dispute arises with foreigners concerning international debts, there is no basis for resolving it. Therefore, China should as quickly as possible draw up and issue laws and regulations concerning foreign debt management, thoroughly changing the present phenomenon of no foreign loan legislation. Through laws and regulations, emphasize that foreign loan management is important, serious and special, proposing the scale of foreign loans be taken as a measure and basis for



carrying out macroeconomic control. For such foreign debt processes as microeconomic fund-raising and application, use legal measures to limit the scale and repayment rate of foreign debts, changing the "rule by people" of foreign debts to a "rule by law." Make the management of foreign debts open, orderly, standardized and legal, impelling each sector that borrows, uses or repays a foreign debt to operate according to law, and put domestic management of foreign loans on a normal course.

6. Pay close attention to developing human resources. "Human resources are the most important capital" has become a new, worthwhile viewpoint in international economic activity. One experience gained from the GDR's successful management of foreign loans was to stress the development of human resources. If China's loan management is to be highly effective, it will want to obtain foreign debts at the most favorable rate of interest, exchange rate and time limit, raising its abilities to meet contingencies. In seizing the best opportunity to enter the international financial market, the key is to develop a human resource pool which is definitely at the international financial theoretical and practical level for foreign loan management and operations. This is a critical problem for China's foreign loan management. Therefore, we should immediately begin paying close attention to developing these human resources. Letting cadres in practice both work and study, tempering them to maturity, is of course important. But just as in training various types of experts, goal-oriented and planned development of a large pool of experts for foreign debt management is of equal importance. Examples of what can be done are: transfer cadres having both ability and political integrity from relevant departments and enterprises to implement directive training; set up relevant specialized fields of study in institutions of higher education, to train a pool of high-level experts suited to our future foreign debt management; just as the GDR did, invite truly experienced foreigners to assume responsibilities in the relevant departments, etc.

#### Footnote

1. National Statistics Bureau Report, 19 September 1988.

#### Factors in Japan's Success With Enterprise Mergers

90CE0045A Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 1, 10 Jan 90 pp 50-56

[Article by Yi Fu (6522 1133); Zhang Baozhen (1728 1405 3791), responsible editor: "On Enterprise Mergers in Postwar Japan"]

[Excerpt] [passage omitted] IV. Lessons From Japan on Enterprise Mergers

From the perspective of postwar conditions, Japan's enterprise mergers generally played a positive role in

Japan's economy and were quite successful. The following motivating factors behind this success warrant attention:

#### 1. Enterprise Reorganization and Restructuring Was Not Left to Enterprises Alone, But Also Required a Key Role To Be Played by the Government.

The role of the Japanese Government in motivating enterprise reorganization could be seen above all in its skill in seeing objective circumstances clearly and making timely decisions. As was stated previously, the dismal condition of Japan's economy in the initial postwar period showed the urgent need to speed up domestic concentration and centralization of capital on one hand, while enterprise "centralization" was severely hampered by various factors on the other. If the Japanese Government had not seen the "starter" effect of enterprise mergers and reconcentration on extricating itself from its economic predicament, it would not have relaxed the restrictions in its "centralization exclusion law" and, thus, its upsurge and development of enterprise mergers could not have occurred. This method of taking the microeconomic and intermediate levels as the points of departure from which to find a starting point for vigorous economic development, is worth drawing lessons from.

In order for enterprises to be reorganized and restructured soundly, the government must take on the job of controlling and regulating enterprise mergers. The "fair business committee" that the Japanese Government set up was the major organization that controlled and regulated enterprise actions and mergers on behalf of the government. Japan's "centralization exclusion law" and "monopoly prohibition law" were the basic laws that regulated enterprise mergers and coalitions. They played the dual role of both restricting and encouraging enterprise mergers, providing both rules that could be followed and laws that could be relied on. Japan's policy on enterprise mergers took both long-range and short-range views into consideration in order to comply with both enterprise merger circumstances and objective economic conditions. For instance, after restrictions on enterprise mergers were relaxed in the 1950's and 1960's, and faced with objective conditions such as the expanded scope of business, the gradual completion of the "mission" of carrying out enterprise mergers in the 1950's and 1960's, and the potential obstacles to free competition of too many mergers, Japan's "fair business committee" began to restrict enterprise mergers in 1973. But it used only indirect methods, such as reducing the percentage of enterprises with relaxed restriction criteria from 30 percent to 25 percent of the market.<sup>1</sup>

The Japanese Government's not going to "extremes" ensured that enterprise reorganization and restructuring were carried out rationally and that enterprises were given economic vitality. Faced with the possibility of enterprise mergers sharpening the imbalance between large enterprises and small and medium-sized ones, the Japanese Government never forgot to foster the growth

of small and medium-sized enterprises. Thus, it set up a special "small and medium-sized enterprise department" and drew up laws such as the "basic law for small and medium-sized enterprises" and the "law for guiding small and medium-sized enterprises" to foster and speed the improvement of technological innovations and the rationalization of production and management in small and medium-sized enterprises.

## 2. Diversified and Rational Methods Were the Key Factors in the Long-Term, Steady Growth of Japan's Enterprise Mergers.

Although many ruthless "takeovers" certainly occurred in the course of Japan's postwar enterprise mergers, the impact of the "democratization" movement and various legal restrictions greatly reduced the number of such "takeovers" in relation to prewar conditions, replacing them with more fair mergers and coalitions accomplished by various other "peaceful" means. A survey of Japan's enterprise mergers from 1955 to 1965, shows that only nine percent of them were due to purely competitive factors, while 43 percent, 23 percent, and nine percent, respectively, were bargains struck between parent companies and their branches, among large enterprise umbrellas, and to acquire raw materials and promote sales, and another six percent were in the category of enterprise remergers.<sup>2</sup> From the perspective of ways and means, the major forms of Japan's enterprise mergers and coalitions have come to include "lateral coalitions," "mutual shareholding," "mutual assignment of senior staff members and workers," and "taking advantage of particular business relations." It is precisely these moderate and impartial ways and means that enable enterprise mergers to be accepted by merger targets, make mergers easier, and reflect the unanimity of bilateral interests.

## 3. The Development of Shareholding Systems Created a Favorable Environment for Enterprise Mergers.

Enterprise shareholding systems made great progress in postwar Japan and, in particular, a system of stock companies characterized by mutual shareholding among enterprises was promoted and developed throughout Japan. By 1984, Japan had 1.12 million stock companies, which accounted for about 50 percent of all of its companies and enterprises.<sup>3</sup> Moreover, the percentage of all shareholding enterprises accounted for by those with mutual shareholding also clearly increased, which could be seen in the percentage of Japan's market stocks accounted for by stocks held by incorporated enterprises or companies, increasing from 23.1 percent in 1949 to 53.2 percent in 1965 and 67.4 percent by 1984.<sup>4</sup> Allowing incorporated enterprises to hold each others' stocks in a process of mutual infiltration and binding together, enabled Japan's enterprises to form coalitions and mergers and achieve successfully the objective of natural union.

### Footnotes

1. Dahe Negotiable Securities Economic Research Institute: "Dahe Investment Data," Japan, No. 27, June 1989, p. 23.
2. Ibid.
3. Ao Cunhong [1159 2625 1347]: "Japan's Stock Companies," China Forecast Publishing House, Japan, No. 4, 1987, p. 13.
4. Ibid.

## Hong Kong Provides Model for Fiscal Policy

90CE0045B Beijing SHIJIE JINGJI [WORLD ECONOMY] in Chinese No 1, 10 Jan 90 pp 64-67

[Article by Xu Xiaosheng (6079 5135 3932), Department of Political Science and Law, Hunan Teachers College; Ren Kejun (0117 0344 6511), responsible editor: "Major Measures and Lessons From Hong Kong on Achieving Financial Equilibrium"]

### [Excerpt] [passage omitted] II. Valuable Lessons

Hong Kong's successful experience in achieving financial equilibrium, has positive and practical significance for economic reforms in the PRC.

#### 1. Macroeconomic Decisionmaking Must Be Realistic.

Macroeconomic decisionmaking refers to the major decisions made by the government on socioeconomic development. Choosing a fiscal policy is one of the most important parts of macroeconomic decisionmaking. The most distinctive feature of Hong Kong's postwar fiscal policymaking was that it proceeded from Hong Kong's actual conditions. Practice has proved that, instead of indiscriminately copying the experience of Western industrialized countries and regions, fiscal policymaking must take its own route, even in a capitalist society like Hong Kong. As Western economists have pointed out, "The government of Hong Kong has very discreetly rejected the various economic policy recommendations made by modern economists. From the perspective of Hong Kong's overall economic objectives, it has been fully proven that Hong Kong certainly did not achieve its successes in areas such as rapid industrialization, price stability, balance of international payments, and full employment, by copying the kind of economic policies adopted by many other countries."<sup>1</sup> Because the PRC is a great nation and the difficulty and complexity of our socioeconomic development cannot be compared to that of the Hong Kong region, our economic decisionmaking should be even more "suited to our particular situation." Some people highly admire the theory of deficit spending, little realizing that its purpose is to resolve the conflict between overproduction and too little consumption and investment. The current situation in the PRC is the same as that in Hong Kong during its sudden economic rise, in that the basic issue is not overproduction and underconsumption, but rather underproduction

and the inability to satisfy consumer demands. Practicing a deficit fiscal policy and overstimulating consumption under the wrong economic conditions could only add fuel to the flames.

## 2. A Rational Ratio Must Be Maintained Between Expenditures and Economic Growth.

Postwar Hong Kong's expenditures and growth rate were determined basically by economic conditions, that is, by the need to keep expenditures within the limits of revenues. The public sector's expenditures increased when revenues rose and decreased when they fell. The Hong Kong authorities adapted their expenditures to their financial resources, based on the theory that "Money must be earned before it can be spent." The government maintained unchanged its overall guiding ideology of creating a favorable investment climate even when the public sector's expenditures increased. Adapting expenditures to economic growth can promote overall socioeconomic balance and prevent significant socioeconomic dislocation caused by man-made factors. If Hong Kong, which is characterized essentially by laissez-faire capitalism, was able to harmonize its expenditures with its economic growth, expenditures should be artificially increased even less in the PRC's planned commodity economy, in order to keep our scope of capital construction from exceeding our national capability and our national economy from sustaining losses.

## 3. "Lower Taxes Resulting in Higher Revenues" Provides Favorable Conditions for Enterprise Growth

Taxes have a very big impact on enterprises in practical social activity. Low taxes can stimulate enterprise investment initiative, lower production costs, make products more competitive, and speed up socioeconomic development. Moreover, as sources of revenue increase along with socioeconomic development, tax revenues will automatically increase also. It was precisely through the use of "lower taxes," i.e., very low tax rates, that Hong Kong attracted and stimulated investment and, based on rapid economic growth, obtained a steady flow of revenue and achieved the objective of "higher revenues," that is, a steady increase in overall tax revenue. The PRC has long taken a purely financial viewpoint, invariably doing everything possible to collect more taxes from enterprises. Consequently, our enterprises have been "wrung dry," and lost their production initiative and ability to upgrade and develop on their own, and the state's sources of revenue have also dried up. Drawing on Hong Kong's experience in the area of taxes, shows that "higher taxes resulting in lower revenues" is not as good as "lower taxes resulting in higher revenues."

### Footnote

1. *Hong Kong: Industrial Colony*, edited by Hopkins, Oxford Publishing House, 1975, p. 142.

## AGRICULTURE

### Increased Farm Tax Rates Hamper Collection Efforts

90CE0203B Beijing NONGMIN RIBAO in Chinese  
12 Apr 90 p 4

[Article by Zhao Zhiwei (6392 1807 0251) and Shen Shuo (3947 4311): "Problems Encountered in Collecting Special Farming and Forestry Product Taxes in Certain Areas Merit Attention"]

[Text] The following problems that are being encountered in rural tax collection in certain areas merit attention:

#### I. Tax Rates Are Higher Than Producers Can Stand

Rising prices for the means of production in the aquatic products industry in recent years, have pushed aquatic breeding costs up to about 82 percent of income. This, in addition to the collection of 10 percent special farming and forestry product taxes, has left most of the over 1,200 state-owned aquatic products breeding enterprises within the national budget facing losses. In 1989, prices for fish bred in Beijing fish ponds averaged 6.4 yuan per kg, while costs were 5.72 yuan per kg. This, in addition to the collection of special product taxes, has made fishery very unprofitable. Fujian Province has now harvested one-half of its prawns and sustained a 90-percent loss. While Huizhou, Guangdong earned over 1,600 yuan per mu for its carefully bred shrimps in the first half of 1989, after deducting items, such as material costs of 1,380 yuan per mu, 10 percent special product taxes (160 yuan per mu), and pay for labor, it was left with an income of only 60 yuan per mu. In the orchard industry, Conghua County, Guangdong Province is the major litchi-producing area. While the 1990 price for litchis at the Jiulibu Orchard in Conghua County is 210 yuan per 100 kg, after deducting 178.5 yuan per 100 kg for material costs and wages of staff members and workers, and paying the 16.5-percent special farming and forestry product tax of 34.65 yuan per 100 kg (including local surtaxes), the orchard is losing 3.15 yuan for every 100 kg of litchis that it sells.

#### II. Calculation and Collection Methods Are Unrealistic

Although the "Circular" stipulates that "special farming and forestry product taxes are calculated and collected based on real product income," it does not clearly stipulate that they are calculated and collected based on commercial income. Calculation is generally carried out through using the outputs and output values of special farming and forestry products in recent years, as reported in the annual report forms of statistics departments, to determine "real product income," on which basis tax collection responsibilities are broken down and assigned to each level. This method of calculation and collection causes the following three problems: 1) it equates production volume with commodity volume and overestimates income, while actually underestimating the considerable percentages of products that are losses

or go for peasants' private use; 2) the inaccuracy of statistics departments' data on output values, makes tax burdens that are calculated and collected according to this method lopsided; 3) "indiscriminate application" results in many areas paying a share of special farming and forestry product taxes, without regard for the amount or even the existence of special farming and forestry product income.

### III. Double Taxes Are Being Collected on Some Products

Products, such as tea, logs, raw lacquer, the edible fungus *Auricularia auricula-judae*, fresh fish, and unprocessed bamboo, are subject according to stipulation not only to product taxes, but also to special farming and forestry taxes.

### IV. These Collection Problems Make It Very Hard To Fulfill Duties

Although the "Circular" is requiring all areas to collect special farming and forestry taxes on a full scale in 1990, the above problems are making this hard to accomplish. Even though governments, public finance departments, tax bureaus, and agricultural departments at all levels are working very hard, the current collection situation is very far from ideal. Tax bureaus in Shandong Province had collected only 15 percent of their state-assigned taxes by the end of August 1989. Although tax bureaus in Guangdong Province have taken many steps to collect taxes, they have been unable to fulfil their duties in quite a few counties. For instance, Dongguan City had collected only 10 percent of its planned 5.7-million-yuan special farming and forestry taxes by the end of September 1989. The method of deductions by public finance departments, that is being used to collect special farming and forestry taxes in some areas, is bound to arouse anxiety about peasant dissatisfaction with the government.

The phenomena of filling in fish ponds, chopping down fruit trees, and lax production management has begun to appear in many areas. If this is allowed to develop, it will cause a setback for the special farming and forestry products which have been developed with such difficulty in recent years, and will take at least three to five years to recover.

### Peasant First-Quarter Income Declines

*HK1206080590 Beijing NONGMIN RIBAO in Chinese 23 May 90 p 1*

[Report by correspondent Zhu Hu (2612 2073) and reporter Cheng Yun (4453 0061)]

[Text] According to the sample surveys conducted by the general agricultural investigation brigade of the State Statistical Bureau among 66,400 peasant households in the 29 provinces, autonomous regions, and municipalities (not including Tibet), the per capita cash income of the peasants in our country continued to increase in the

first quarter of this year, but if the price factor is deducted, the actual income was slightly lowered than the same period of last year, and the expenditure in their production and daily lives also decreased.

According to the surveys, in the first quarter of this year, the per capita cash income of the peasants (with the cash income from loans being deducted) amounted to 168 yuan, or increased by 3.5 percent over the same period of last year; with the factor of price increases being deducted, the actual income was 1.6 percent lower than that in the same period of last year. In this period, the cash income from the collective undertakings increased, while the cash income from economic combination bodies decreased. Meanwhile, the cash income from the secondary and tertiary industries remained at the same level as in the same period of last year, and the cash income from the sale of various products (excluding grain) decreased to varying degrees.

In the first quarter of this year, the per capita cash expenditure of the peasants for production purposes amounted to 42.4 yuan, or increased by 3.7 percent; but with the factor of price increases being deducted, the actual production input made by the peasants decreased by 2.3 percent. In this period, the amounts of investment in agriculture, industry, construction, transport, and service trades increased, but those in forestry, animal husbandry, fishery, handicraft industry, commerce, and the catering trade decreased. Peasants reduced their actual production input mainly because first, their actual cash income did not increase and second, the rise of the prices of production materials also restrained peasants from increasing production input.

In the first quarter of this year, the peasants' per capita cash expenditure for covering the living expenses amounted to 116.6 yuan, or increased by 3.6 percent. The growth rate in this respect was 20 percentage points lower than in the same period of last year. With the factor of price increases being deducted, the actual expenditure for living costs decreased by 1.6 percent.

### Tea Procurement Prices Drop

*40060050D Beijing JINGJI CANKAO in Chinese 27 May 90 p 2*

[Summary] This spring the procurement price for tea in Zhejiang Province is 702 yuan per 100 kilograms, a 22.8-percent decrease from the same period in 1989; and in Anhui Province the procurement price is 933 yuan per 100 kilograms, a 19-percent decrease from the same period in 1989.

### Anhui Grain Departments Buy More Grain

*OW1006142390 Hefei ANHUI RIBAO in Chinese 31 May 90 p 1*

[Excerpts] To ease peasants' complaints that it is difficult to sell grain and to enhance their enthusiasm to grow grain crops, grain departments in various localities of

our province are earnestly implementing the provincial government's "Emergency Notice on Increasing the Purchase of Grain at Negotiated Prices" and are buying grain at negotiated prices. Despite difficulties caused by a lack of funds, a slump in the grain market, and a shortage of granaries, grain departments throughout the provinces purchased 250 million kilograms of grain in April. [passage omitted]

In Luan Prefecture, grain departments bought a total of 60 million kilograms of grain in April, surpassing the highest records of the same period of previous years. [passage omitted] In Chuxian Prefecture, a total of 70 million kilograms of grain were bought at negotiated prices in April. [passage omitted] In Chaohu Prefecture, grain departments purchased some 20 million kilograms of grain at negotiated prices in the same month.

### **Regional Conference on Grain Distribution Ends**

*SK1006124990 Hohhot Inner Mongolia Regional Service in Mandarin 1000 GMT 3 Jun 90*

[Text] At the regional conference on the distribution of grain, which ended on the afternoon of 3 June, Liu Zuohui, vice chairman of the regional government, stressed that the grain issue affects the overall situation. He said: On the one hand, we should persist in unswervingly grasping grain production, and on the other hand, we should do a good job in grain distribution and circulation. Vice Chairman Liu Zuohui pointed out: Last year, the regional government proceeded from the situation in the region and in grain production and decided to place ten-odd major grain varieties such as wheat, corn, soybean, and oil-bearing crops under the exclusive control of state grain departments. After one year of initial practice, it is proven that this policy conforms to our region's reality. In addition to strengthening the state overall control over grain in the circulation sphere, effectively checking the practice of vying to force up prices through various channels and the abusive exploitation of panic buying when grain is in short supply and having no people to take charge of the work when grain is in excessive supply, and promoting the planned, proportionate and coordinated development in the production of grain and oil-bearing crops, this policy also plays an important role in helping us to fulfill the state purchasing plan, balance the relations between supply and demand of peasants in the region, and stabilize grain prices and the market. This year, we will continue to persist in implementing this exclusive state control policy. Under this prerequisite, we have properly adjusted, replenished, and improved the exclusive state control method, which mainly included that the edible sunflower seeds in the western part of the region would be rationed by the league and city governments in line with the production situation. The grain supply and marketing departments will purchase them and the grain departments will check, accept, and manage them in a unified manner. The management methods and the prices of the nonedible castor-oil seeds will be determined by the castor-oil production leagues and cities in

line with the industrial production and market situation and will be reported to the regional authorities for the record. The grain and oil-bearing transaction markets will be open all year round. The grain producers, after fulfilling their grain contract purchasing tasks, based on their grain and oil-bearing crop purchasing receipts, may go to the transaction markets to sell their own grain and oil-bearing crops and to exchange the grain varieties with other people.

The catering and pastry trade and the grain-user units may go to nearby transaction markets to buy their needed grain and oil-bearing crops. However, it is strictly forbidden to transport for sale over long distances and to resell them at a profit. Buckwheat is our region's competitive commodity for earning foreign exchange through export. While selling the negotiated-priced buckwheat, the grain departments should first meet the region's export needs and the (?prices) of the buckwheat should be fixed by the regional Economic and Trade Department and the Commercial Department after consultation. After fulfilling the export tasks, the grain departments may manage the buckwheat business on their own.

Vice Chairman Liu Zuohui called on all leagues and cities to proceed from the overall situation, foster the ideas of coordinating all the activities of the region like pieces in a chess game, resolutely submit themselves to the unified grain distribution and obey orders. The areas to ship in or deliver grain should maintain close coordination, support one another, and do a better job in coordinating the allocation plan.

### **Zhejiang Sets Up Negotiated-Price Grain Reserves**

*90CE0203C Beijing JINGJI RIBAO in Chinese 30 Apr 90 p 2*

[Article by Huang Quanwu (7806 0356 2976): "Zhejiang Province Sets Up Negotiated-Price Grain Reserves To Enable It To Share in Basic-Level Difficulties and Make Up Crop-Failure Shortages With Bumper-Harvest Surpluses"]

[Text] Zhejiang Province has decided to take advantage of its good grain-procurement situation and enhance its macroeconomic regulation and control by setting up negotiated-price grain reserves. It has made plans to set up 100 million kg of rice reserves in 1990, and has called for these reserves to gradually reach 250 million kg within the next three to five years.

There was a big increase in the amount of grain that peasants in Zhejiang Province sold to the state in 1989. Grain management departments procured a lot more grain at negotiated prices after fulfilling their planned grain-procurement tasks. The sharp increase in reserves due to a decrease in negotiated-price grain sales tied up too many funds and created heavy interest burdens. By the end of the 1989 grain year, Zhejiang's negotiated-price grain reserves reached 1.16 billion kg, 570 million

kg more than in 1988, and were tying up about 1.1 billion yuan in funds, for which the monthly interest alone was costing over 12 million yuan. This was causing unusual management difficulties. In setting up these negotiated-price grain reserves, the grain will be transferred from existing negotiated-price grain reserves, the reserve funds will be transferred from corresponding bank loans, and Zhejiang will be responsible for the interest and commissioned reserve expenses that are incurred during the reserve period. This will enable Zhejiang to share in the practical difficulties of basic-level grain management departments and play a role in spurring them to procure grain better, safeguarding peasant initiative to grow and sell grain, and stabilizing grain production. Moreover it will enhance Zhejiang's macroeconomic regulation and control capacity over grain, and better enable crop-failure shortages to be made up with bumper-harvest surpluses.

#### Hubei Afforestation

40060051A Wuhan HUBEI RIBAO in Chinese  
30 May 90 p 1

[Summary] This spring Hubei Province afforested 4.3 million mu.

#### Inner Mongolia Repays IOU's

40060050F Hohhot NEIMENGGU RIBAO in Chinese  
26 Apr 90 p 1

[Summary] As of 20 April, Inner Mongolia repaid the more than 110 million yuan worth of IOU's issued in 1989 to farmers for grain, oil crop, and wool procurement; in addition, 120 million jin of grain, 2 million jin of oil crops, and 3,500,000 jin of wool farmers could not sell in 1989 was procured.

#### Shandong Wheat Affected by Insect Pests

SK1006122190 Jinan DAZHONG RIBAO in Chinese  
5 May 90 p 1

[Excerpt] Insect pests recently affected large areas of the wheat fields of our province. Throughout the province, 15 million mu of wheat has been affected by powdery mildew. In Jining, Heze, Linyi, Zaozhuang, Taian, Liaocheng, and Dezhou cities and prefectures, 50 to 60 percent of the wheat crop was affected, and there was a tendency of further spreading of the pest. The density of aphids rose very rapidly, and has reached such a level that pest preventive and treatment measures should be taken in the southwestern part of the province. It is estimated that by around 10 May, more than 30 million mu of wheat will be affected. Stripe rust and sheath and culm blight of wheat also began to cause damage in some localities. According to the weather department forecast, the weather conditions of early May are favorable for the occurrence of wheat insect pests. [passage omitted]

#### Intercropping Produces Good Results in Shandong

SK1006125690 Jinan Shandong Provincial Service  
in Mandarin 2200 GMT 27 May 90

[Text] Under the circumstances that cultivated land is decreasing every year, our province's areas sown to crops have continuously increased. As was learned from the national on-the-spot conference on summer planting, harvesting, and field management, which concluded on 24 May, our province's cultivated land has decreased by more than 6 million mu in the past 10 years or so, but the total acreage sown to crops has grown by nearly 13 million mu, thus providing a favorable condition for achieving a sustained and stable increase in the production of grain and cotton.

As one of the key grain and cotton growing areas of the country, Shandong is not only a province with large agricultural production but also one with a large population. Since the founding of the new China, the population of the province has grown from some 45 million to more than 81 million, but its cultivated land has declined from 130 million mu to the present 103 million mu, with the per-capita amount of cultivated land declining from 2.9 mu to 1.26 mu. The per-capita amount of cultivated land of 33 counties has decreased to less than 1 mu at present. Restricted by natural weather conditions, our province is capable of reaping more than one crop but less than two crops a year. Under such circumstances, rural areas adopted the method of intercropping, reaping three crops in two years and two crops in the following year. Such spontaneous intercropping activities drew the attention of governments at various levels, and began to become a reform measure in the cultivation system. In the past decade or so, in particular, our province has summarized and popularized the experiences and methods of intercropping wheat with cotton, wheat with corn, grain with vegetables and grain with fruits adopted by such counties and cities as Wenshang, Liaocheng, Wendeng, and Shouguang. It reduced in a planned manner every year the acreage sown to one crop only and expanded the intercropping index. Because wheat and cotton were their major crops, various localities particularly popularized intercropping of wheat with cotton, thus expanding the acreage and production of grain and cotton on the limited amount of cultivated land through intercropping. Wheat acreage of the province has expanded from 60 million mu in 1978 to 70.23 million mu this year, and cotton fields have expanded from 9.41 million mu to 21 million mu. This year, the fields on which wheat and cotton are intercropped have exceeded 10 million mu, and fields on which wheat and oil-bearing crop are intercropped have reached 2.9 million mu. At present, the annual amount of land sown to grain is kept at about 120 million mu, and the acreage of such cash crops as cotton, oil-bearing crops and vegetables has expanded to 42.6 million mu, thus guaranteeing a comprehensive increase of production of grain, cotton, oil-bearing crops, and vegetables. The province's output of grain, cotton, peanuts, and other major crops ranks among the best in the country.

**Shandong Completes Spring Cotton Sowing**

*SK1006122090 Jinan DAZHONG RIBAO in Chinese  
11 May 90 p 1*

[Excerpt] Cotton sowing work was successfully completed in our province. By 4 May, the province had sown 17.99 million mu of spring cotton, of which more than 11.98 million mu were sown to cotton alone, and 6

million mu were interplanted with wheat, and seedlings of 10.4 million mu had emerged. [passage omitted]

**Shanxi Cotton Area**

*40060050E Taiyuan SHANXI RIBAO in Chinese  
20 May 90 p 1*

[Summary] The cotton area in Shanxi Province is 1,885,000 mu, an increase of 92,700 mu over 1989. The planned cotton area is 2 million mu.



### Causes of Crimes Under Socialism Summarized

90CM0115A Beijing FAXUE YANJIU [LEGAL RESEARCH] in Chinese No 1, 23 Feb 90 pp 28-33

[Article by Zhou Zhongfei (6650 0112 7378): "A Summary of Scholars' Views in the Past Two Years Concerning the Causes of Crimes"]

[Text] In the past two years legal scholars have done quite a lot of research on the causes of crimes. This paper will summarize the views from four different standpoints.

#### 1. On the Sources of Crime (Causes)

Concerning the use of the two concepts "sources of crime" and "causes of crime," criminologists are not all consistent. In expounding the same argument, some people will elevate it to the level of a source, whereas others will treat it at the level of a cause. In view of this, this paper will summarize the various views concerning the sources of crimes in China's current stage, and the reader, having understood these views, will be able to understand the various different views concerning the causes of crimes.

Numerous scholars have done penetrating analysis regarding the issue of the sources that have given rise to crime under China's current stage. The majority of these scholars are of the view that the sources of crime under China's current stage are either class sources, economic sources, or sociohistorical sources. The so-called class sources refer to the fact that currently China still experiences class struggle, "we still have antirevolutionary elements, enemy spies, and various criminals and other elements that would destroy the socialist order; we have graft and embezzlement, and the new exploiting elements—the profiteers—and even in the long term we will not be able to completely eliminate these phenomena." (The words of Deng Xiaoping) To acknowledge that under socialist conditions crime manifests itself as class struggle is to acknowledge the class source of crime. This is because, even after the establishment of a nation with a people's democratic dictatorship system, all the opposition of the ruled classes and the activities of the enemy forces manifest themselves in the form of illegal crimes; and, as for the nature of all crimes, they are a kind of manifestation of class struggle. As for the economic sources of crime, some people feel that the contradiction between backward social production, an undeveloped economy, and the material and cultural demand of social members, and the actual conditions of material life in a society is a determining factor of crime. With backward productive forces, a paucity of social products, and the demand of the people not being met, various economic elements now coexist within the socialist planned commodity economy mix. And this current situation inevitably leads to clashes and contradictions between various economic interests, it produces dissimilar interest relationships, it forms various contradictions and interest buffers, and the result is friction and contradiction in economic relationships, clashes among

various interest groups, and even crime. However, the necessary economic and material foundations to control, ameliorate, and eliminate the sources of crime do not exist in China. As for the sociohistorical sources of crime, most scholars feel that in the initial stage of socialism there are maladies carried over from feudal society that need to be ameliorated, and there are conflicts and influences coming from foreign capitalism. Not only is the whole society faced with the challenge posed by feudalism and capitalism, but even our party members and state workers can be afflicted with feudal and capitalist thought. Some members of society inevitably sink to crime in order to pursue illegal profits. Some say that many of the crimes we now see committed exhibit strong feudal features such as ignorance or brutality, or the use of power in the commission of crimes. We see crimes underscored by a type of feudal loyalty. We see crimes involving clan or family revenge. And we see feudal superstitions being employed in the commission of crimes. All of these features show that the influence of feudal remnants is a historical source of crime in China today.

Aside from the views mentioned above, there are others who feel that today's crime can be traced back to the fact that in the initial stage of socialism we still have a system of private ownership, and concepts of private ownership and exploitation still exist. Thus, there is a place for commodity and currency fetishism to grow; decadent thought such as looking only for a profit, harming others to benefit oneself, and gaining without labor can still arise; and crime is probably unavoidable. Some feel that the system of private ownership of personal property in a socialist society is a source that gives rise to crime. These people think along the lines of Engels and his contention that the system of private ownership of personal property is related to the moral commandment to "not steal," and these people feel that stealing and the moral commandment to "not steal" arise and gain development along with the rise and development of the system of private ownership of personal property. At the same time that socialism establishes the system of ownership by the whole people, it also confirms the system of private ownership of personal property. "From each according to his ability, to each according to his work" is a condition in socialist society that gives rise to and stimulates the system of private ownership of personal property. Because the system of private ownership of personal property cannot continued to be practiced in socialist society for quite some time into the future, criminal phenomena remain a possibility that allows the state to encroach upon property rights, and the result is that, as long as socialist society does not reach the highest stage of communism, we will not be able to say that we have achieved a society where crime cannot occur.

Recently, a new view has been put forward—that crime stems from the alienation of man's instincts. Of all the theories about the sources of crime, this viewpoint can indeed be said to be a novel and distinct one. First of all,

adherents to this view feel that any conclusions about the sources of crime should be able to explain the reasons for the various forms of crime that arise under differing temporal and spatial conditions. They feel that the theory of instinctual alienation can also explain the sources giving rise to crime in socialist society. Adherents of this view prove their argument from the standpoint of both individual and attributive development histories. The various instinctive unconscious actions of infants, such as breaking a drinking glass, dirtying a wall, or making various unreasonable demands, all in fact go to wreck the inherent order of social life. And there are certain connections between the instinctual actions of a child that destroy social order and the transgressions that the same child commits when he grows to adulthood. Once the child grows up, society will not hesitate to label similar actions as "bad ones" and consequently punish him. For a person who has not received the appropriate societal education and nurturing, his behavior may more closely resemble instinctual behavior directly spurred on by instinctual impulses, and it will be much easier for him to violate the long-established norms of human society. It is believed that no matter how civilized a society becomes, the organismic instincts of those who "live by their libido" will continue to dog societal development. Instinct operates as subconscious desire, and when instinct is curbed by societal and cultural demands, it is repressed back to the recesses of consciousness where it remains latent. Moreover, instinct stands ready to take advantage of any situation that civilization has yet to find a way to control, popping out and displaying its unbridled self in ways that are at complete odds with conscious activity. Hence, deviation from the norm (crime) is inevitable. Extrapolating from this, they will say that the ultimate cause of crime can be traced back to the beginnings of human society, or primitive society, not "class society." Crime in civilized culture merely borrows from the concepts and methods of crime forms in primitive society and then cloaks itself in the trappings of civilization. But, in the end it remains an alienation of instincts.

## 2. On the Causes of Today's Rise in Crime

According to the first view, certain fundamental changes and pronounced problems that have followed from societal change and economic prosperity are the basic reasons for increasing crime. Reforms have heightened the disparities in interests between individual and individual, between individuals and groups, between individuals and the state, between groups and groups, and between groups and the state; and societal interests have become diversified and complicated, with the result that the contradictions and clashes stemming from various disparities of interests have increased. Moreover, because the relationships among interests have become more diversified and complicated, mediating the contradictions and clashes between interests presents numerous difficulties. Establishing a new kind of reasonable interest framework requires working through a process, and, thus, crime stemming from clashes of interests is on the increase.

The second view maintains that the process of achieving modernization will inevitably be accompanied by increased crime. First of all, modernization will change the production management styles, the lifestyles, and the living conditions of the people. Thus, the old, customary styles of living and producing and the closed and semi-closed living conditions of the people and the concomitant mental equilibrium will all be swept away. As this happens, populations will inevitably drift and migration will occur to varying degrees resulting in the rapid formation and development of new regions and areas with fairly high degrees of population migration. In these sorts of areas, it is inevitable that there will be clashes of economic, cultural, ethical, and psychological origin, and so on, that arise among people who come from different areas and different levels. As a result, crime will increase. Second, the process of modernization is a process of adjusting the allocation of interests that will reallocate vested interests and at the same time lead to certain changes in the style of allocation. To a certain extent these changes will cause certain persons who are under the strong spell of high-level consumption to feel as if their interests are being somewhat stripped from them, and, as a result, the idea of crime will occur to them. Third, the process of modernization will bring about massive changes in economic structures and management styles. A whole series of changes will occur in such links as production, circulation, allocation, and consumption, and there will be many opportunities for criminals. Fourth, changes in economic foundations will inevitably require a host of changes to occur at upper levels. However, changes at upper levels are not always smooth. Contradictions between the demands made by the process of modernization and factors that arise when changes at the upper levels do not suit the needs of productive force development could inevitably come to be reflected in problems of crime and social order. Fifth, during the process of modernization, mental attitudes will be tied to conflicts that arise between the new and old ethical concepts and cultures. This is a vertical conflict. At the same time, horizontally, mental attitudes will be tied in with conflicts between Chinese and foreign ethical views and cultural traditions. The inevitable result of the conflicts will be moral and ethical pluralism. But the laws of a society are always consistent with that society's orthodox moral precepts. Thus, greater plurality among moral and ethical views will lead to greatly increased opportunities for the behavioral norms of a people to conflict with the law. These factors of disorder and disequilibrium in the mental attitudes of the people will have a negative influence on the problem of crime. Sixth, modernization demands opening up to the outside world, and this will lead directly to international crime, immigration crime, smuggling, and so forth, and the greater diversification of the types of crime we will see. Certain comrades have put forth a view similar to the one noted above. They feel that in the course of making reforms, which have as their overall strategic goal the achievement of socialist modernization, speeding up the development of the commodity economy will inevitably require that we allow certain capitalist elements to exist

and develop during a given phase of socialist development and that we cannot overlook the objective fact that under socialist conditions there will be breeding grounds of capitalism that are rife with crime and that there will be various possibilities for unavoidable crime to multiply without end. In giving a comprehensive elaboration for the causes of crime, although the blossoming and development of the economy is not the sole factor for rising crime rates, it does play a determining role as a guiding factor.

According to adherents of the third view, China's current rise in crime can be attributed to the negative influence exerted by the commodity economy. First, we can see the negative influence of the commodity economy in the unfortunate effects it has had on the values and morals of the people. The system of values that have arisen under commodity economy conditions have had the amoral tendency to emphasize individual development. In a society with a commodity economy, economic activities are directly seen in interest relationships, and interests are directly intertwined with the desires of the people which in turn easily stimulate and create reactions in people's minds. From this general motivations develop as behavior. Looking at life in society, the profit motive of the commodity economy increases the greed of certain persons in society and this leads them down the mistaken road of obsessively trying to satisfy their own private desires. Economic competition easily leads to ruthless battles where unscrupulous means are employed. Impulsive labor motivated by money and high-strung lifestyles render the human sentiments dull, the spirit anesthetized, personal dignity trampled, and the man enslaved by gold. In addition, the negative influence of the commodity economy can be seen in the way, during the course of its development, that the spontaneity and fluctuation it possesses come into conflict with social order. Economic activities under commodity economy conditions are noteworthy for their absence of any effective way of applying adjustment or control. Thus, there are both even, gentle development and troubled times with inflation and belt-tightening. These fluctuations inevitably influence the stability of social order, add to society's burden, and keep the crime rate in society at a fairly high level.

According to the fourth view, increased crime is due to societal dislocation. More specifically, changes in societal structures during times of great upheaval and dislocation in societal controls lead to the production of large numbers of low-quality youth. This so-called low-quality youth stratum refers to a hypothetical group with low cultural qualities and deficient ideological and moral levels who have not been socialized and who are fairly ill-suited to fit in with the enormous changes in modernized society. As a whole, the members of this group are noted for their development of antisocial attitudes and their lack of respect for social norms. This inevitably leads to an inherent connection between the low-quality youth stratum and criminal activity. Thus, the existence of a large number of low-quality youth in China today leads directly to increases in crime.

According to the fifth view, abnormal consumption structures are a primary cause of today's increased crime. Abnormal consumption structures are breeding grounds for the direct multiplication of various crimes. The connection here is that the unhealthy stimulation that comes with abnormal consumption structures leads to malignant growth in people's desires for material enjoyment, and this in turn leads to conflicts between the individual and society and the individual and others. In the end, decayed behavior in the form of crime results. Abnormal consumption structures create mental imbalances, mental imbalances bring abnormal demands, and this exacerbates the contradictions and conflicts in the interim between individual demand and societal norms. When this sort of contradiction-based conflict develops to a certain stage, crime is the inevitable result. When abnormal consumption structures lead to such functional dislocation in societal structures as dislocation in economic structures, political structures, city and town structures, human relationships, and the family, then society is weakened in its ability to fight crime and crime increases. Abnormal consumption structures bring about a whole series of perverse mistakes in the mental outlook of the people, and the guiding and restricting influence of ideology and consciousness of one's own behavior is markedly weakened, the power to control is lost, and increased crime results.

### 3. On Crime During the Initial Stage of Socialism

According to one view, not only can crime not occur within the socialist system, but the system itself provides a basic assurance that crime will be prevented, reduced, and even wiped out. This is because politically the socialist system is a people's democratic dictatorship, economically the socialist system is founded on ownership by the whole people and operates based on distribution according to labor, and ideologically and culturally the system is guided by Marxism-Leninism and Mao Zedong Thought. Practice has proved that the establishment of the people's democratic dictatorship has provided powerful means for preventing and punishing crime, and the establishment and development of the socialist ownership by the whole people has created a material premise for the elimination and reduction of crime. Distribution based on labor requires that the principles of "he who does not work does not eat" and "the more one works the more one gets" be practiced. This is a negation of the ideology of the exploiting class that holds that "one can gain without work" and "it is fine if one relaxes and lets others do the work." Distribution based on work is an encouragement to the people to contribute their own labor toward the building of the material and spiritual civilizations of socialism, and, at the same time, it ensures unending elevation of the material, cultural, and living levels of society as a whole. Not only is there not a necessary relationship between crime and the basic system of socialism, but, in fact, crime means that the socialist system is being destroyed.

Some comrades suggest that the causes of crime under socialist conditions cannot be found within the socialist

system itself, and that this is determined by the nature of socialism itself. Whether it is the initial stage of socialism or the high stage of socialism, the nature of the system should be the same. The following constitute the nature of the socialist system: 1) The socialist economy is founded upon ownership by the whole people, and socialist production attempts to satisfy the material and cultural needs of the people to the greatest extent possible, rather than lead to exploitation. 2) Under the socialist system, in the final analysis, individual interests and group interests, partial interests and whole interests, and temporary interests and long-term interests are all unified. 3) At the same time that we construct a high degree of material civilization, we are also constructing a high degree of spiritual civilization. The so-called spiritual civilization refers not only to education, science, and culture, but also to communist ideology, ideals, beliefs, morals, and discipline, revolutionary stances and principles, comrade-like relations among men, and so forth. These three features of socialism go to determine that the socialist system itself cannot produce crime.

According to a second view, during the initial stage of socialism there will be similar areas of negativity and imperfection. We cannot keep illegal criminal activity from happening. For example, "large in size and collective in nature" easily leads to thinking that one should "eat from the communal rice pot." Instances of gaining without working, of extravagant waste, and of bureaucratism are all related to this idea. There is very real inequality in distribution based on labor. Add to this the current private economic sectors that exist and the quite widespread selfish ideas of the people, and one can see that there is ample territory for crime to arise. Some people feel that socialism is the transition from capitalism to communism, and that during the transition there cannot but be features and points from both economic structures existing simultaneously. Thus, in socialist society there will inevitably be space and conditions for crime to arise. China is still in the initial stage of socialism, the socialist system remains very imperfect, and certain systems that now exist, like the administrative management system, the economic system, the cadre system, the labor employment system, and the wage and remuneration system, among others, all are experiencing various maladies and deficiencies. These maladies and deficiencies, and the flaws and shortcomings all provide the criminal elements with opportunities to exploit. China's current economic and cultural levels are fairly backward, and in the initial stage of socialism it is impossible to immediately eliminate poverty and ignorance. Thus, crime will continue to occur and increase.

#### **4. On the Commodity Economy and the Problem of Economic Crime**

This problem has been a hot topic for criminologists in the last couple of years. Most people set out to show the relationship between the commodity economy and economic crime by detailing the unique nature of the commodity economy. In summing up the various views,

we find either very little disagreement, or else the same arguments are used, or else one view will supplement the other. Currently, the scholars hold the following main views on the issue:

In the first view, most feel that the competitiveness of the commodity economy is one cause of economic crime. This is because profit-motivated competition leads to single-minded pursuit of profits, mutual inhibition, mutual strife, and attempts to subjugate the other. Weaker competitors may resort to various illegal means to ensure that they are not eliminated or to try and gain high profits. This is the negative nature of the commodity economy. Because competition grows fiercer by the day, this negative nature becomes a fixed psychological state in society, and it makes up both an economic and an ideological cause of economic crime.

According to adherents of the second view, the commodity economy expands exchanges to all territories of social life. Complex exchange relationships between enterprises, organizations, and companies, and between the individual and the state, and between groups all provide possible conditions for economic crime to emerge. This is because society's products in this current stage both qualitatively and quantitatively contradict the exchange demands of the market. In addition, we practice a dual-track economy where we have the state-run enterprises getting part of their raw materials from unified state procurement, and the other part from whatever way the enterprises themselves can find to buy them. Once the enterprise fulfills the state plan for its products, it can sell the rest on its own. In the course of exchange, every commodity producer has conflicting interests in order to sell his enterprise's products. Thus, economic crime develops.

In the view of a third group, the socialist commodity economy denies the egalitarian distribution model that was used in the past, and it acknowledges the existence of unequal incomes. Because individuals have different work abilities, different levels of intelligence, different work conditions, environments, and opportunities, etc., in the area of distribution there will be unequal incomes. Unequal income can cause those who, in the course of labor competition, have insufficient confidence, who are devoted to profit-making, or who are not satisfied with their vested interests to adopt a criminal psychology marked by jealousy, destructiveness, and unlawfulness. And some feel that the form of distribution we now practice still embodies the power features of the capitalist class. That is, equality in form conceals inequality in fact. In production units, the tendency of distribution remains to practice the communal rice pot. This leads inevitably to certain contradictions. Even more worth taking note of is the fact that those who engage in complex labor earn less than those who engage in simple labor. This is an upside-down pattern of societal distribution. And, some enterprises lose money, so there is no way to even talk about distribution based on labor for them. Low wages and rising commodity prices lower the

living standards of some people. All of these contradictions inevitably bring on societal unrest and lead to economic crime.

According to adherents of the fourth view, with ownership rights and management rights bifurcated in the socialist commodity economy, the relationship between enterprise management rights and the interests of the enterprise becomes more intimate. Particularly with the practice of the profit tax schedule, after an enterprise becomes responsible for its profits and losses, not only do different commodity producers have their own distinct material interest, but within the same ownership system, among state-run enterprises there are partial enterprise and individual interests operating upon the same foundation of interests and this inevitably leads to various conflicts and contradictions in profit and loss relationships. Especially under conditions where such systems as the legislature, the judiciary, the supervisory, and the administrative are imperfect as they pertain to the economy, it is difficult to conceive of every commodity producer being able to correctly manage the interest relationships between the state, groups, and individuals, and it is difficult to conceive of every economic activity falling within the channels of the socialist system. Some people will exhibit a new kind of individualism when social practices are as we have outlined—cabalism. Some enterprises will engage in economic crime in order to bring profit to the cabal or an individual.

Those in the fifth group feel that because commodities and currency exist, it is inevitable that commodity and currency fetishism will come about. Under commodity economy conditions, not only are the production unit and the individual concerned about their production and its exchange, but they are even more concerned with whether or not they can realize the greatest possible profit. Societal production units and producers easily become consumed with the idea of money and make a fetish out of their commodities in order to realize the value of their commodities and protect their own interests. But, once a person becomes dominated by the alien forces of money and commodities, it is quite possible that he will start down the road of crime.

The sixth view starts out by noting the characteristics of commodity production. These people feel that one of the unique features of commodity production is that demand stimulates production. Today China's commodity economy is insufficiently developed, and the seller's market occupies a dominant position. Supply and demand are not in touch with each other and this can lead to both forward and reverse stimulation among commodity producers. Forward stimulation refers to market demand stimulating production activity. But reverse stimulation refers to market demand inducing certain commodity producers to engage in crime in their production in order to pander to market demand.

There are others who object to the views we have outlined above. They feel that there is no necessary

relationship between China's practicing a commodity economy and economic crime. Because the socialist commodity economy of China is premised on ownership by the whole people, the socialist nature of commodity production and exchange is thereby determined. Regardless of the conditions the commodity economy is operating under, and regardless of the form of ownership of production materials that the commodity economy is combined with, the principle of exchange of equal value will be in effect. That is, equal amounts of labor are exchanged. This principle illustrates that in commodity exchange the people recognize only one thing—labor value. Labor is the prerequisite for exchange. Quantitatively similar labor values are equal. Thus, the objective law of the commodity economy demands that between independent commodity producers, only when each recognizes the interest of the other will they have equal power to exchange their products. This is fundamentally at odds with any sort of ownership based on privilege or noncompensation. Although economic crimes each take on its own form, by their nature they are all noted for their ownership of the property of the state, a group, or another individual without providing any compensation and for their extreme egoism. Economic crime basically denies the labor of others, and it excludes and encroaches upon the interests of others. Thus, economic crime is basically at odds with the law of equal exchange in the commodity economy itself.

#### **Economic Legislation Seen Key to Further Reform**

90CM0114A Beijing JINGJI CANKAO in Chinese  
1 Apr 90 p 4

[Article by Yu Meisun (0205 2734 5549): "Carry Out Improvement and Rectification as We Strengthen the Entire Legal System"]

[Text] Most people have come to accept the necessity of strengthening the construction of the legal system and making government behavior standardized at the same time that we proceed with reforms in the economic and legal systems. Accomplishing this will demand that we on the one hand establish government authority at all levels, strictly enforce orders and prohibitions, and ensure that the government adjusts and controls economic movement in accordance with the law, and on the other hand that we make sure that government activities are supervised and kept in check, particularly when government behavior is encroaching on the legal rights of others, and that in such cases government accept the corresponding responsibility. Thus, all of the various economic relationships in our society must be brought within the sphere of the legal system, thereby establishing comprehensive, systematic, and complete legal norms, and allowing us to apply legal means to adjust and control movement in the entire national economy and avoid or reduce the chaos and waste resulting from economic disputes, social contradictions, and mistaken decisions.

### **Strengthening the Legal System: Improvement and Rectification Is the Only Way Out**

Ten years of reform have brought huge changes to economic life in China. They have altered the product economy model, with planning set in opposition to the market, and have brought on the planned commodity economy. They have led to the development of a new system with numerous component parts, numerous economic forms, and numerous management styles. They have led to the opening up and gradual establishment of the socialist market system. And they have achieved multifarious forms of distribution with distribution according to labor at the core. As the new systems replace the old, the original systems and styles of management and the original systems of leadership that we employed in such areas as planning, finances, money markets, goods and materials, market pricing, and labor all are no longer suitable to the requirements of economic development. We can never resolve the new situations and new issues we encounter as reforms intensify if we employ old methods or try to travel down old paths. If we hope to systematically put in order all of the intricate economic relationships, then we must bring together and employ economic, administrative, and legal means in effecting solutions. Most important here, we must handle things in accordance with the law and bring economic activity within the sphere of the legal system. We must put an end to our traditional way of emphasizing governmental policy and disregarding the laws, and allowing governmental policy to substitute for the law.

Already we are finding that handling matters according to governmental policies makes it difficult to meet the increasingly complicated needs of commodity economy development. For example, the problem we now have of the so-called "governmental policy at the top, and measures at the bottom" has occurred because there are neither quantitative nor qualitative restrictions on governmental policy, there is enormous flexibility for maneuvering, and one can get away with doing this or effecting that with the result that it is difficult to achieve strict enforcement of orders and prohibitions. Thus, we must both strictly effect macroeconomic control and see that vitality is ensured on the microeconomic level. Only by employing legal means in adjusting and controlling movement in the economy as a whole can we succeed in making improvements and rectifications and in intensifying reforms, and only in this way can we promote the further development of market mechanisms and the establishment and strengthening of new orders. Only by employing legal means will we see basic improvements in the economic environment.

### **Economic Legislation: The Current State That Worries People**

In 10 years, with reform opening things up, economic legislation has developed quite rapidly. We have enacted a series of important economic laws and regulations

covering such things as Sino-foreign joint venture enterprise management, enterprises, and bankruptcies, and these laws have blazed trails for liberalized reforms. Because of the rapid development of reforms in recent years, the new and old systems have been in a state of coexistence and transition. However, our laws and the theories and views of those working in the law have developed very slowly. Many problems come along and for a certain period of time are difficult to recognize. To a certain extent legislative work is made more confused and problematic because of this. On top of this, conflicts and collisions between legal means and economic and administrative means make it difficult to rapidly solve certain chaotic problems that exist in our socioeconomic order.

Between January 1979 and June 1989, the National People's Congress and its Standing Committee passed 83 laws, 45 of which were economic laws; and 63 resolutions and determinations concerning legal issues, 14 of which dealt with economic laws. In an average year eight laws were passed, four of which were economic laws, and in 1988 the historical levels were surpassed with 14 laws being passed, 10 of which were economic laws. This speed with which legislation is enacted is completely at odds with what is needed.

Between January 1979 and June 1989, the State Council issued or ratified a total of 499 regulations, 359 of which were economic regulations, and 671 regulation-type documents (namely, red-letterhead documents; this does not include internal documents), 429 of which dealt with economic matters. Every year from 1979 to 1985 saw an increase in legislative output over the previous year, and the yearly output of regulation-type documents dropped quite a bit each year. The direct ratio between legislation and regulation-type documents illustrates that the legal system was growing stronger and things were looking up. However, in 1986 38 economic laws were enacted. This was 14 percent fewer than the 44 that were enacted the previous year. In 1988 44 laws were enacted. This was 45 percent fewer than the 79 that were enacted the previous year. Of these 44 laws, 35 pertained to economic matters, 41 percent fewer than the 59 economic laws passed the previous year. On the other hand, 66 regulation-type documents (red-letterhead documents) were issued in 1988. This was 210 percent of the 31 issued the previous year. Again we have a direct ratio (the situation for the first half of 1989 corresponds roughly to that for the first half of 1988) and this illustrates the increased use of administrative means.

Many important and urgently needed laws are enacted too late or else are never enacted. As a result, in many areas our laws and our reforms are at odds with each other. This is a serious impediment to our attempts to replace the old system with the new one, establish a new order, and improve the economic environment. Quite obviously, the sluggish movement of economic legislation could lead to the return of the old system and a standstill in improvement and rectification and reform intensification, all of which represent a danger to us.

### Speed Up Legislation: Use the Legal System To Push Reforms

Our experiences in practice have shown that construction of the legal system in China, at a time when we are exploring ways to develop our practice, has already led to great socioeconomic results. For example, the "Sino-Foreign Joint Venture Enterprise Law" was enacted in 1979, and so far 20,800 enterprises have been set up with foreign capital investment of \$32 billion. The "patent law" has been in effect now for five years. It is designed to spur scientific and technological advances. Over 120,000 patent applications have been reviewed, 34,000 patents have been granted, and it is calculated that the 11,000 technological patents that are now in effect have brought 12.93 billion yuan worth of new economic results. The "Rules for State Awards for Scientific and Technological Advances" have been in effect now for nine years. Already 1,344 inventions have been rewarded, which have enabled the state to increase income and cut expenditures totaling at least 32.8 billion yuan. In the six years since 1983 when the audit and supervisory system was set up, over 40 billion yuan worth of illegal funds have been uncovered, thereby recovering lost monies for the state coffers. In the seven years since 1983 when the system of economic trials was set up, the various courts have heard 1.46 million economic disputes involving court battles for 30 billion yuan. Already over 20 billion yuan of this has been freed for return to circulation. There are many more similar examples. This goes to show that not only do economic legislation and the construction of the legal system play a strong role in advancing and promoting development of the productive forces, but moreover, these things themselves directly produce amazing economic results. Thus, it is urgent that we speed up legislation and use the legal system to push forward reforms.

### Shanghai Publishing Industry Undergoes Rectification

90CM0034A Beijing LIAOWANG [OUTLOOK]  
in Chinese No 10, 5 Mar 90 pp 25-26

[Article by Zhao Lanying (6392 5695 5391): "In the Midst of Improvement and Rectification, Shanghai News Publishing Enterprises Focus on Development"]

[Text] Focusing on development—this is the guiding philosophy behind Shanghai's cleansing and rectification of the book, newspaper, and record markets. Gong Xinghan [7895 5281 3466], assistant director of the Propaganda Department of the Press and Publication Bureau of the Shanghai Municipal party committee, at a meeting with reporters said the following in response to a question: "Cleansing and rectification does not mean merely weeding out a few individuals in the news business or halting the sale of a few books; it is rather to aid in the cultivation and development of cultural affairs." The reporters who attended this talk all seemed to agree with this point.

### Continuous Study Classes

Since last summer, study classes have been held continuously, including rotating training classes for news cadres, study classes in primary study materials on political theory, study classes for publishers and editors in chief, and study classes for editing room managers.

This is because the Shanghai leading departments have a realistic view of the news publishing contingent: There exists a bourgeois liberalization influence, and some comrades were emphasizing economic benefits while omitting social benefits. But the overall quality is good, and they have made a great contribution to socialist cultural affairs.

In 1989, Shanghai published 6,765 titles in every field; only nine titles were banned, and before 1988 no books were banned. Shanghai publications have always been top-rated nationally. Some of the biggest cultural projects are products of Shanghai's publishing industry, including *Collection of Words, Chinese Dictionary, English-Chinese Dictionary, New Chinese Literature Series, and Complete Chinese Art*.

On the news front, there are some 80 newspaper houses; aside from specialty newspapers, most of them support the four basic principles and promote the party line. Last summer, when Shanghai experienced civil disorder, they generally withstood all sorts of pressure, held to general party guidelines, and for the sake of stabilizing Shanghai they played the part of guides for correct thinking. In particular, when there was serious trouble on the Guangxin Railroad, the newspapers JIEFANG RIBAO, WENHUI RIBAO, XINMIN WANBAO, and the radio and TV stations broadcast the sentiment, "We can't have disorder, else what can we do," and the entire country was watching.

Gong Xinghan said, "Because of this, the main thing in solving these problems is to understand them, not to rely on criticism and firings. Only through studying and education and continuously improving one's thinking can these problems be solved at their root.

In working to lead news publishing in Shanghai, the Shanghai Municipal party committee Propaganda Department has for a long time supported the news industry's system of communicating. They hold a meeting on the first Saturday afternoon of each quarter with Shanghai units of the Central Committee and leaders of every major Shanghai newspaper. Important comrades from the municipal party committee and the city government attend each meeting.

### Vigorously Pursue Key Projects

A list of some of Shanghai's key books for 1990 was sent to this reporter. This list is not short, with 250 titles coming from every publisher, including *Guide to Marxist Philosophy, Summary of Contemporary Marxist Works, Chinese Ethnic Music Series, Collected Works on Chinese Treasures, Complete Ming Poetry, Dictionary of*



*Education, Complete Book of Chinese Calligraphy and Painting, Treasury of International Children's Stories, Chinese Dictionary* (5 or 6 volumes), and *Collection of Words*—each of these books is over a million words in length.

The publishing of large quantities of fine books is an important sign of a flourishing socialist culture.

In managing the rectification, everyone in Shanghai is vigorously pursuing the publication and distribution of major works.

Jiang Zengpei [3068 2582 1014], editor-in-chief of Shanghai's Wenyi Publishing House, said, "Our editorial philosophy is to have multiple arrangements, high quality, a principal melody, and mutual benefits." A few of the books put out by this publisher have already turned into series. *New Chinese Literature Series* is a huge work that runs to 50 volumes and will be published in its entirety this year. The Chinese classical work, *The Book of Flowers*, will be published, and in the same series are *The Book of Tea*, *The Book of Wine*, and *The Book of Food*. A set of collected works of Chinese writers is being published; such writers as Zhu Guangqian [4281 0342 3383], Zhou Libo [6650 4539 3134], Bing Xin [0393 1800], Jiang Guangci [5592 0342 1964], and Sha Ting [3097 3060] have already been published. There is also a series of children's stories; collections of stories from China, Italy, Africa, France, and the Soviet Union have already been published. In addition there are a series of memoirs of generals, biographies of musicians, and the collected works of Wujiao [0063 6037]. They are also the best when it comes to book binding and layout; their gift books and deluxe hardbound editions have become sought by thieves and are reprinted several times.

Another large Shanghai publisher, Shanghai's People's Press [Renmin Chubanshe], will publish new books every month during this year. Wu Shiyu [0702 1102 0151], assistant editor in chief, said, "Propagating Marxism-Leninism, participating in the development of culture, introducing progressive western culture, forming a structure for producing books, establishing an overall picture of social science publishing—these are our directions." The 1.8-million-word *Guide to Marxist Philosophy* was arranged to meet the needs of the party, which is emphasizing the study of Marxist philosophy this year. *History of Socialist Political Science* was a key project of the Sixth Five-Year Plan's scientific research planning in national philosophy and social sciences. *History of Chinese Taoism*, *Chinese Astronomy*, *History of Chinese Printing*, and other books have filled in the gaps in various fields.

For the past few years, some Shanghai publishing houses have had research and verification groups which have guaranteed the quality of publications. At the end of each year, the Shanghai Press and Publication Bureau holds a meeting with the heads of each publishing house

to clarify publishing trends, responsibilities, and goals for the following year; once the major decisions have been made, the various departments undergo coordination. The goods and materials departments are asked to guarantee supplies, the printing departments are asked not to delay in their work, and the sales departments are asked to disseminate key materials. At the same time, they supply loans and subsidies. Last year the Press and Publication Bureau issued 3 million yuan in research publication scholarships, of which 2.4 million yuan was loaned to 11 publishing houses and 600,000 yuan was granted for the publication of some 60 important scholarly works. This year they will provide 3 million yuan as scholarships and an additional 10 million yuan in grants for new printing technology. The Shanghai municipal party committee Propaganda Department is also providing 2 million yuan for the publication of Marxist-Leninist works.

#### Making Pornography Cleanup a Standard Practice

After the CPC Central Committee and the State Council met regarding pornography cleanup on 24 August of last year, Shanghai held a citywide meeting on 15 September. The city and each district set up work groups for the rectification and cleansing of the book and music publishing markets. Each newspaper in Shanghai published a collection of propaganda items for a period in order to raise a hue and cry throughout society that "pornography cleanup is glorious, addiction to pornography is shameful, and dealing in pornography is a crime." Shanghai has recently confiscated 185,000 contraband books and 33,000 records.

The Shanghai Press and Publication Bureau organized investigative groups to investigate one-by-one some 80 newspapers and other publications published in Shanghai in recent years. Each publisher conducted investigations of its own recently published works. At the same time, all recording facilities and printing plants were rectified and licensed anew.

Stopping the flow of pornography is the primary task in the rectification and cleansing of Shanghai's book market. The five big checkpoints—the railroads, ocean shipping, trucking, customs, and posts and telecommunications—have all set up working groups. All subordinate units of the Shanghai Railroad Department have addressed the problem of pornography in telephone conferences, workers' representative assembly meetings, and office discussion groups. They have seized 30,000 illegal books and 20,000 illegal recordings by checking consignments, vehicle loading points, arrival points, stations, and by on-vehicle inspections.

Jia Shumei [6328 2885 2653], assistant director of the Shanghai Press and Publication Bureau and assistant director of the municipal cleansing and rectification work group, said, "We must make pornography cleanup a standard practice." On National Day last year, and on New Year's Day and Spring Festival this year, Shanghai

mobilized over 7,000 people to conduct searches all around the city.

Last July and November Shanghai mayor Zhu Rongji [2612 6954 1015] signed the "Shanghai Municipal Regulations for

Book and Newspaper Publication" and the "Shanghai Municipal Provisional Regulations for Banning Harmful Publications." These two local regulations help put rectification and cleansing work in Shanghai on the track to becoming a standard practice.

**Hunan PLA Units Strengthen Political Building**

*HK0506025990 Changsha Hunan Provincial Service  
in Mandarin 2200 GMT 4 Jun 90*

[Text] The provincial military district held a meeting of three-level directors of political departments in Hengyang from 28 to 31 May, to discuss how to strengthen political building in its armed units and militia reserve units.

Responsible comrades from the propaganda department of PLA General Political Department and from the departments concerned of the Guangzhou Military Region attended the meeting.

**Soldier Punished for Illegal Manufacture of Guns**

*HK0606085490 Beijing JIEFANGJUN BAO in Chinese  
10 May 90 p 3*

[Report by Zhu Yeping (2612 2814 1627): "A Volunteer Soldier Is Punished for Making Hunting Guns Illegally"]

[Text] On 28 March, the discipline inspection commission of a certain military unit issued a circular on issuing a serious inner-party warning to a volunteer soldier surnamed Ye who made light hunting guns illegally. Before that, the military unit recorded a serious mistake in his administrative dossier.

Ye is a professional noncommissioned officer in a repair factory of the military unit. Last year, he and a local villager, Mr. Zhang, jointly undertook the management contract of the machine processing workshop of the factory, and received processing orders from outsiders. In this period, they illegally made light hunting guns and sold them to local villagers in order to make more money. By November last year, they had made 11 hunting guns, which were all confiscated by the local public security organ after being discovered. Ye was also engaged in such lawbreaking activities of stealing and selling aircraft fuel, bench vices, files, and spanners.

**EAST REGION****Jiangxi Commends Advanced Ideological Workers***HK0706142390 Nanchang Jiangxi Provincial Service  
in Mandarin 1000 GMT 6 Jun 90*

[Text] The enlarged Fifth Plenary Session of the Second Jiangxi Provincial Enterprise Ideological and Political Work Research Society and the Jiangxi Provincial Conference on Commending Advanced Units and Individuals That Have Excelled in Ideological and Political Work were simultaneously held in Nanchang today.

Liu Fangren, deputy secretary of the Jiangxi Provincial CPC Committee, and Wang Taihua, member of the Standing Committee of the Jiangxi Provincial CPC Committee and concurrently director of the Propaganda Department of the Jiangxi Provincial CPC Committee, attended the conference and conferred certificates of merit on all the advanced units and individuals commended at the conference.

The conference relayed the spirit of the Sixth Annual Meeting of the National Enterprise Ideological and Political Work Research Society.

Comrade Liu Fangren delivered a speech at the conference.

In his speech, Comrade Liu Fangren demanded that CPC committees and people's governments at all levels and all departments concerned in Jiangxi attach great importance to ideological and political work, adhere to economic construction as the center, further strengthen ideological and political work among the broad masses of staff and workers in light of the realities in Jiangxi's economic work, mobilize the production enthusiasm of the broad masses of staff and workers, integrate ideological education with the work aimed at solving practical problems, unite the broad masses of staff and workers, enable the broad masses of staff and workers to brace themselves, pool the wisdom of the broad masses of staff and workers, successfully accomplish all the tasks in the course of the campaign aimed at improving economic environment, rectifying economic order, and deepening reform, overcome all temporary difficulties, and strive to bring about a sustained, steady, and coordinated development of Jiangxi's provincial national economy

**Jiangxi Issues Circular on Maintaining State Secrets***HK0506084190 Nanchang Jiangxi Provincial Service  
in Mandarin 1000 GMT 4 Jun 90*

[Text] The Jiangxi Provincial State Secret Maintenance Bureau recently issued a circular demanding that all areas of Jiangxi conscientiously study and publicize "Measures for Enforcing the PRC State Secret Maintenance Law" and further strengthen Jiangxi's state secret maintenance work.

The circular said that "Measures for Enforcing the PRC State Secret Maintenance Law" was officially promulgated and effective on 25 May, and constitutes an important step toward perfecting China's legal system.

The circular called on leaders at all levels in Jiangxi to attach great importance to studying and publicizing the "Measures" with a view toward heightening the consciousness of the broad masses of cadres and people in enforcing and abiding by the "PRC State Secret Maintenance Law."

The circular held that party and government organs at all levels, big enterprises and mines, institutions of higher learning, and scientific research institutions in Jiangxi must take the lead in studying and publicizing the "Measures." Leading cadres and personnel with access to state secrets must first familiarize themselves with the "Measures." Party and government organs at all levels in Jiangxi must revise or establish their own state secret maintenance systems in accordance with the "PRC State Secret Maintenance Law" and other relevant state regulations in hopes of gradually placing Jiangxi's state secret maintenance work within the orbit of the legal system.

**Public Security Organs in Jiangxi View Clean Management***HK0506083590 Nanchang Jiangxi Provincial Service  
in Mandarin 1000 GMT 4 Jun 90*

[Text] The Jiangxi Provincial Conference on Clean Public Security Management was held in Nanchang from 31 May to 3 June.

Liu Fangren, deputy secretary of the Jiangxi Provincial CPC Committee, and Wang Zhaorong, member of the Standing Committee of the Jiangxi Provincial CPC Committee and concurrently secretary of the Political and Legal Affairs Committee under the Jiangxi Provincial CPC Committee, attended and delivered speeches at the conference.

The conference held that over the past few years, under the correct leadership of the CPC Committees and people's governments at all levels, public security organs at all levels in Jiangxi have attached equal importance to both professional and organizational development, adhered to the principle of strictly managing the police, strengthened ideological and political work among the broad masses of police officers and policemen, and achieved gratifying results in all types of work. By and large, public security organs at all levels in Jiangxi have honestly performed their official duties or, at least, basically honestly performed their official duties.

The conference pointed out that although progress has been made in Jiangxi's clean public security management, it is certainly wrong to overestimate such progress. To strictly manage the police, strengthen clean public security management, and oppose corruption still remains an urgent task of Jiangxi's public security contingent to this day. Leaders at all levels in Jiangxi must

attach great importance to this task, set a fine example, take the lead in fulfilling this task, and promote clean public security management ideologically, politically, organizationally, in action, and in system, establish and perfect a system aimed at supervising and promoting clean public security management, resolutely investigate cases of police officers and policemen violating the law and discipline, and carry on such investigations through to the end.

The conference held that redoubled efforts must be made to heighten the spiritual realm, ideological consciousness, and legal awareness of the broad masses of police officers and policemen and strengthen ideological education among them, with emphasis on revolutionary traditions, professional morality and ethics, and the legal system with a view to enable the broad masses of police officers and policemen to more effectively oppose corruption and further push ahead with clean public security management.

#### **Shandong Democratic Party Holds Plenary Session**

*SK0706045590 Jinan Shandong Provincial Service in Mandarin 2200 GMT 1 Jun 90*

[Text] The Second Plenary Session of the Third Shandong Provincial Committee of the China Democratic National Construction Association was held at Nanjiao Hotel in Jinan from 30 May to 1 June. Sun Qimeng, vice chairman of the Standing Committee of the National People's Congress [NPC] and chairman of the Central Committee of the China Democratic National Construction Association, and Wan Guoquan, member of the Standing Committee of the National Committee of the Chinese People's Political Consultative Conference [CPPCC] and vice chairman of the Central Committee of the China Democratic National Construction Association, made a special trip to Jinan to give guidance at the session.

Zhou Zhenxing, director of the United Front Work Department of the provincial party committee, came to the session to visit the participants and gave a speech.

The session relayed the guidelines of the Third Session of the Seventh NPC and the Third Session of the Seventh National CPPCC Committee, studied and implemented the proposals of the CPC Central Committee on upholding and improving the system of multiparty cooperation and political consultation under the leadership of the communist party of China, and the guidelines and resolutions of the Sixth Standing Committee meeting of the Fifth Central Committee of the China Democratic National Construction Association, discussed the work report of the provincial committee of the China Democratic National Construction Association, and discussed and formulated important work goals for 1990.

The session called on democratic national construction organizations at all levels and all members throughout the province to rally closely around the CPC, actively

help the party and government do a good job in stabilizing the situation and developing the economy, persist in upholding and improving the system of multiparty cooperation and political consultation under the leadership of the CPC, and actively participate in discussing state affairs.

#### **Officials Dismissed for Illegally Building Houses**

*SK0706020190 Jinan Shandong Provincial Service in Mandarin 2200 GMT 23 May 90*

[Text] Recently, the Qingdao City party committee and government decided to deal with three county-level, party-member leading cadres in Pingdu City who violated discipline and laws while building private houses. (Wang Xingyuan), former vice mayor of Pingdu City, was punished with expulsion from the party and dismissal from his post as vice mayor; (Guan Fushen), vice chairman of the Pingdu City People's Congress Standing Committee, was given a serious inter-party warning; (Li Siheng), member of the Standing Committee of the Pingdu City party committee and secretary of the Political and Legal Commission, was given an inter-party warning. At present, all county and city discipline inspection commissions in Qingdao City are making cooperative efforts with departments concerned to deal as quickly as possible with party-member cadres who have arbitrarily built private houses.

Since 1984, more than 2,000 private houses were built in 200 villages in the city proper of Pingdu Jiaozhou, Jimo and Jiaonan Cities and Laixi County, more than 50 percent had problems of one kind or another. A great proportion of these private houses were built by party members and leading cadres. Arbitrarily building private houses in the city proper has not only seriously affected the overall development plan for building the city proper and has reduced, by a large margin, the available cultivated land in the areas covered by the development plan. More seriously, a small number of party-member cadres went through the back door and established relations for the sake of building private houses and fell into the mire of making deals through their powers and with money and abusing their powers to seek personal gain.

In April 1988, (Wang Xingyuan), former vice mayor of Pingdu City, abused his power to help his relatives build six private houses in the city proper. In the course of building and decorating houses, he seized and paid a shortage of more than 13,400 yuan of collective capital and goods. Building private houses among party-member cadres has had a very bad influence on the masses and has greatly harmed the relations between the party and the masses. During the last few years, the Qingdao City party committee and government have paid great attention to this problem and studied and worked out plans for solving it on several occasions.

Pingdu City and Laixi County established leading groups for investigating the arbitrary building of private houses one after another, dispatched nearly 1,000 cadres and specialized personnel from departments concerned to

form groups to engage in the investigation. At present, Qindao City has basically checked this unhealthy trend. Most units have entered the stage of studying and handling this type of case.

### Postgraduates Aid in Shanghai Area Development

*OW0706040290 Beijing XINHUA in English  
0133 GMT 7 Jun 90*

[Text] Shanghai, June 7 (XINHUA)—More than 1,000 postgraduates from Shanghai's East China Teachers University are showing special enthusiasm about the chance to do their bit in developing the Pudong area in Shanghai.

The Graduate Students' Union in the university invited a city vice-mayor to give a lecture on the development of the Pudong area soon after the development plan was announced in April.

Students have written dozens of academic papers on Pudong's development prospects.

Seminars have also been held by the union to share proposals in this respect.

A dozen post-graduates have offered free services in their spare time to work in the city's office in charge of Pudong's development.

There, they received and talked with Chinese and foreign business people who have shown interest in investing in the Pudong area. They also helped office staff with information on development, regional planning, and computerized management.

## CENTRAL-SOUTH REGION

### Guangdong Outlines Crime-Fighting Goals

*HK1405133190 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 12 May 90*

[Text] This morning, the Guangdong Provincial CPC Committee and the Guangdong Provincial People's Government held a telephone meeting in the Guangdong Provincial Public Security Department to make arrangements for the forthcoming a province-wide struggle against serious criminal activities.

Song Zhiying, member of the Standing Committee of the Guangdong Provincial CPC Committee and concurrently secretary of the Guangdong Provincial Political and Legal Work Commission, delivered a speech at the meeting.

In his speech, Comrade Song Zhiying stressed that in order to successfully carry out the current struggle against serious criminal activities, it is necessary to aim at the right targets so as to achieve the maximum results. The struggle should mainly be carried out in big and medium-sized cities, counties, towns, communications

lines, and some townships where social order is constantly threatened by serious criminal activities. The struggle should mainly focus on such serious crimes as murder, killing people with explosives, stealing weapons and ammunition, armed robbery, and so on. It is necessary to severely punish criminals who steal or rob a lot of public or private money and goods, commit crimes along railroad lines and on highways, sabotage electricity networks, hydropower stations, railroads, communication networks, and equipment of enterprises or mines, sell and traffick in drugs, run prostitution dens, abduct women and children, defraud money, commit cases of profiteering, speculation, embezzlement, and bribery, commit organized crimes, sell pornographic publications, and so on.

### Guangdong Punishes Civil Rights Violators

*HK1305071690 Beijing ZHONGGUO XINWEN SHE  
in Chinese 0824 GMT 12 May 90*

[Report: "Guangdong Province Seriously Punishes Those Involved in Civil Rights Encroachment Cases"]

[Text] Guangzhou, 12 May (ZHONGGUO XINWEN SHE)—Xiao Yang, president of the Guangdong Provincial People's Procuratorate, revealed that Guangdong had dealt severe blows at those who were involved in various cases of encroaching upon civil rights as such cases existed to a serious degree.

Xiao Yang revealed this when he delivered a work report to the provincial people's congress in session. He said: "In 1989 and in the past months of 1990, procuratorate throughout the province handled more than 1,600 criminal cases related to the encroachment of people's democratic and personal rights and dereliction of duty, and more than 300 people involved in these cases were prosecuted.

Among these cases, those of extorting a confession by torture, illegal detention of people, and illegal searches particularly made the people's blood boil. In disputes over land, forests, irrigation works, and housing in the countryside, some people tended to take such extreme actions as detaining hostages and setting up a kangaroo court. Last year, it was discovered that some people in Shaoguan City illegally detained the young daughter of a debtor for more than 100 days. Such criminal offenders were persecuted and sentenced by the court.

Some government officials were also accused of bending the law for the benefit of relatives or friends and retaliating against and framing law enforcement personnel and people who informed against them. In Huizhou City, after being punished according to party discipline for embezzling public money, a middle-level cadre mailed bullets to threaten people who informed against him and law enforcement personnel who handled his case. He was recently brought to court for trial.

In addition, Xiao Yang strongly condemned a small number of government officials who were irresponsible

in their work and caused serious losses. Last year, more than 170 cases of dereliction of duties were investigated in throughout the province, and more than 100 people were killed. Direct economic losses exceeded 20 million yuan in these cases.

Xiao Yang said: The handling of such cases of encroaching upon civil rights and being derelict of duties, "and the struggle against such criminal offenses, also constitute a major part of the struggle against corruption." He said that this year, procuratorates in Guangdong will deal severe blows on crime and effectively guarantee the democratic and personal rights of citizens and their other legitimate rights and interests.

### **Ideological, Political Work Meeting in Guangzhou Ends**

*HK2105093090 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 20 May 90*

[Text] The sixth annual meeting of the China Workers' Ideological and Political Work Research Society successfully concluded in Guangzhou's Railroad Cultural Palace today.

Xu Weicheng, deputy director of the Propaganda Department of the CPC Central Committee, delivered a concluding speech at the closing session of the meeting.

In his speech, Comrade Xu Weicheng demanded that ideological and political workers at all levels across the country further strengthen confidence and achieve greater successes in carrying out enterprise ideological and political work.

The meeting discussed a series of specific ways and means aimed at strengthening and improving enterprise ideological and political work according to the spirit of the letter of congratulations sent to the meeting and relevant speeches made by leaders of the central authorities.

All participants at the meeting unanimously held that enterprise ideological and political work has already passed the most difficult period. The entire country is now paying more and more attention to ideological and political work. The party and the state have already clearly defined the important position of ideological and political work. The overall situation concerning enterprise ideological and political work has improved substantially. At the same time, ideological and political workers at all levels across the country have also greatly strengthened their own sense of mission and sense of responsibility.

Comrade Xu Weicheng expressed the hope that all Chinese enterprises will carry out in-depth education on China's basic national situation and the CPC's basic line, more extensively carry out activities aimed at encouraging staff and workers to put forward proposals for rationalization, train a new generation of staff and workers with lofty ideals, moral integrity, cultural accomplishments, and a sense of discipline, and promote economic and social stability and development in China.

Deng Liqun, advisor to China Workers' Ideological and Political Work Research Society, also delivered a speech at the meeting.

Comrade Deng Liqun's speech mainly dwelt on improving the quality of China's ideological and political workers.

### **Guangdong Institutes Public Supervision System**

*HK1505142790 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 14 May 90*

[Excerpt] Today, NANFANG RIBAO and GUANGZHOU RIBAO carried the full text of the decision made by the Fourth Enlarged Plenary Session of the Sixth Guangdong Provincial CPC Committee on further introducing the system of making the public aware of the government's decisionmaking process and operation, and accepting open supervision by the masses.

The decision includes five sections:

1. The system of making the public aware of the government's decisionmaking process and operation, and accepting open supervision by the masses is an important system by which to overcome and eliminate corruption. We must conscientiously institute this system.
2. Any department or unit which ought to, and is in a position to institute this system should set it up. The party and government's economic managerial departments, supervisory departments, public facility departments, and law enforcement departments at provincial, city, county, prefectural, town, and township levels should, proceeding from their local conditions in a down-to-earth manner. All basic level units which have direct dealings with the masses, especially those in charge of administrative management, public facilities, supervision, and law enforcement, should institute and improve this system as soon as possible. Matters which arouse public concern or with which the masses are quite dissatisfied such as financial revenues and expenditures; granting loans; distribution of materials; use of land; the increase and decrease in taxes or tax exemption; stipulations and use of the right to impose a fine and confiscate property; inviting tenders for projects; approval and issuance of various certificates; approval and issuance of exit visas to those who plan to settle in Hong Kong, Macao, or foreign countries; sending cadres abroad; recruiting students, cadres, and workers; arrangements for demobilized soldiers; building and allocation of houses; and so on, should be made known to the public at different levels so that they will be supervised by the masses and corruption be eliminated or reduced.
3. It is necessary to ensure that the masses exercise effective supervision. After saying that it is necessary to open up or broaden channels to facilitate public supervision, this section pointed out that party committees at all levels should support and provide guidance to the public to expose and criticize, according to the party's principles for journalism and in a practical way, the negative and corrupt practices which seriously harm the interests of the masses. At the



same time it is necessary to publicize model cadres who are honest in performing official duties, and give free rein to the supervisory role of public opinion. This section also stress that those who inform against cadres should be protected. Those cadres who retaliate against informants should be punished according to party discipline and law. The responsibility of those lawbreakers should be investigated.

4. It is necessary to integrate the above system with other relevant systems.

5. It is necessary to strengthen leadership and do a good job in carrying out the decision. [passage omitted]

### **National Anticorruption Conference Held in Guangdong**

*HK2105060790 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 19 May 90*

[Text] The National Conference of Directors of Bureaus against Embezzlement and Bribery was convened in Zhuhai City yesterday.

Lu Chengjing, director of the Guangdong Provincial Bureau against Embezzlement and Bribery, delivered a report at the conference on how procuratorial organs at all levels in Guangdong have beefed up their anti-corruption forces and summed up their successful experiences in carrying out the struggle against embezzlement and bribery.

Zhang Siqing, procurator general of China's Supreme People's Procuratorate, also delivered a speech at the conference.

In his speech, Comrade Zhang Siqing said that since Guangdong Province took the lead in establishing a bureau against embezzlement and bribery last August, some 18 Chinese provinces, regions, and municipalities have established bureaus against embezzlement and bribery.

Comrade Zhang Siqing held that the establishment of bureaus against embezzlement and bribery fully conforms with the development of China. Guangdong has already taken the first step in this regard. At the current conference, all the comrades should learn from Guangdong's experiences and explore ways and means aimed at improving their own work in this regard so as to push ahead with China's nation-wide struggle against embezzlement and bribery.

### **Guangdong Congress Delegation Visits Thailand**

*HK0105130790 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 29 Apr 90*

[Text] A delegation of the Guangdong Provincial People's Congress headed by its Standing Committee Chairman Luo Tian has successfully concluded its friendly visit to Thailand.

The delegation returned to Guangzhou from Bangkok on the afternoon of 28 April.

During the visit, the delegation was cordially received by Thai Prime Minister Chatchai Chunhawan. When

touring (Hali) province, the delegation was accorded lavish hospitality by local parliament, government and Chinese people. Both sides expressed the wishes for strengthening cooperation in the economic, technological and other fields.

### **Guangdong Promotes Mao Thought on Art, Literature**

*HK2505114190 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 24 May 90*

[Text] The Guangdong Provincial CPC Committee Propaganda Department held a meeting at the Zhudao Guesthouse in Guangzhou on 23 May to celebrate the 48th anniversary of publication of Mao Zedong's talks at the Yen'an Forum on Literature and Art and to give awards to outstanding literary and art works of Guangdong Province marking the 40th anniversary of the founding of the People's Republic.

About 300 people including literary and art workers of the province and relevant persons of the departments concerned attended the meeting.

Huang Hao, a member of the provincial party committee Standing Committee and head of the provincial party committee Propaganda Department, attended the meeting and delivered a speech entitled, "Carry forward the Yen'an Literary and Art traditions to Make Literature and Art of Guangdong Province Prosper". He hoped literary and art workers of our province would study hard the fundamental theory of Marxism, adhere to the fundamental spirit and principles of Mao Zedong's Talks at the Yen'an Forum on Literature and Art and foster the Marxist literary and art standards and aesthetic standards so as to guide the literary and art work of Guangdong Province.

### **Shortage of Intellectuals Impedes Guangdong Progress**

*HK2905141890 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 29 May 90*

[Text] A provincial meeting of cadres in charge of scientific and technological work was held today.

Provincial party committee deputy secretary Zhang Guoying called the attention of the meeting to two matters relating to the contingent of intellectuals in our province. One is that the number of intellectuals is far from satisfying the ever-increasing needs of the province's tasks of carrying out reform and opening up to the outside world, as well as economic construction. The other is the prominent problem of the gap in terms of age and level of knowledge of the intellectual contingent.

Zhang Guoying pointed out that statistics show that the total number of personnel engaged in natural science ranks 11th in the nation, and 23d in the nation per 10,000 people. However, the growth rate of scientific and technological personnel in our province over the past few years has been lower than the average rate in the

country, particularly in the contingent of agrotechnological intellectuals. Furthermore, the absolute number of scientific research workers has been cut for several years in succession. Meanwhile, the average age of professional scientists and technicians of our province is above 50 years old and there is a conspicuous lack of successors to carry on the work. If we still fail to adopt effective measures to solve the problem of decline with respect to qualified persons, the development of all undertakings in our province will be seriously hindered. Therefore, it is all the more important and urgent for us to strengthen and improve work among intellectuals and reinforce the contingent of scientific and technological workers in our province.

### New System Aids Ideological Work in Zhanjiang City

90CM0193A Guangzhou WENMING DAobao  
[CIVILIZATION REPORTER] in Chinese No 3,  
10 Mar 90 pp 4-5

[Article by Chen Ziqi (7115 1311 1142) and Lin Xiangfan (2651 0686 0416): "Setting Up a New Network for Ideological-Political Work in the Rural Areas—A Report on the 'One School, Four Networks' System in Zhanjiang Municipality"]

[Text] "A serious question is the education of the peasants," was the way Comrade Mao Zedong succinctly set forth this task as early as in the 1950's [in his "On People's Democratic Dictatorship"]. Today, after the structural transformations in the rural areas, it is still an important task, part of the development of spiritual civilization in the rural areas, namely how to adapt to the new situation following reform and opening up, how to enhance ideological-political work in the rural areas, how to educate and guide the peasants in their support of the four cardinal principles, how to have them raise themselves from poverty to a state of prosperity, and how to nurture a new generation of men possessing the "four desirable qualities."

In the last few years, Zhanjiang Municipality initiated the development of a "one school, four networks" system (that is, one town/township party school with a network of contacts between party members and households, a network of culture rooms, a radio and TV network, a network for the distribution of books, newspapers, and periodicals), all this to form the main component of a new network for ideological-political work in the rural areas.

#### I

In October 1987, the party committee of Zhanjiang Municipality called an informal rural ideological-political work meeting at Suixi County, to review the "one school, four networks" system, which the said county had initiated as a method of strengthening education of the peasants. The municipality also proposed that development of the "one school, four networks" system be taken up as an item of systems engineering for

the strengthening of rural ideological-political work, by means of which to build up a new network for ideological-political work throughout the rural area of the municipality in the course of the next three or five years.

A little over two years have passed, and it is gratifying to see that the development of the "one school, four networks" system has spread quickly throughout the municipality and is successfully blossoming forth on the fertile soil of the Leizhou peninsula.

**The Township/Town Party Schools.** In all the 111 towns/townships of the municipality, party schools have been instituted, and they are provided with the "five essentials" (organization, teaching personnel, teaching materials, housing, and operational funds). In 1989, they had jointly operated 621 rotational training classes, had trained 76,200 party members, and covered the area to 81 percent.

**Network of Contacts Between Party Members and Households.** Out of the total of 94,000 rural party members throughout the municipality, 75,100 participated in the "contacts between party members and households" activities, and 202,000 rural households had been contacted.

**Network of Culture Rooms.** Throughout the municipality, 61 up-to-standard township/town culture centers had been set up; they account for 55 percent of all townships/towns of the municipality. In each administrative district, there is generally one culture room; 938 of them have in the past performed up to standards; they account for 66.4 percent of their total number.

**Radio and TV Networks.** The municipality has a TV station and a radio station, with coverage over the entire municipality. Five counties have TV stations or TV relay stations and FM radio stations. Nine townships/towns have set up small FM wireless broadcasting facilities. Coverage by wired broadcasts is 100 percent, and loudspeakers are mounted in over 102,300 households.

**Networks for the Distribution of Books, Newspapers, and Periodicals.** Apart from the postal and telecommunications departments and the Xinhua Book Co. continuing to function as main channels for the distribution of books, newspapers, and periodicals, all counties (districts) throughout the municipality have established book, newspaper, and periodical distribution stations, and each township/town has set up a distribution team. At present, there are more than 400 newspaper and periodical delivery persons in the rural area who promptly deliver NANFANG RIBAO, ZHANJIANG RIBAO, and other party newspapers and publications to the various households in the villages. The book distribution channel has also developed from the former way of being handled by one single household to being handled through several channels and at different levels.

## II

Instituting the "one school, four networks" system has enabled covering the entire large rural area of the municipality in ideological-political work, and is playing an important role in the development of spiritual civilization.

First, it has opened up a main channel for rural ideological-political work and has solved the problem of a break in the communication links as had occurred between different administrative levels. After instituting the output-related responsibility system in the rural areas, the basic-level cadres did not know for some time how to do ideological-political work in single family and single household operations, and some cadres simply gave up. General and specific party policies and many items of propaganda frequently suffered a break in the communication links when they were supposed to be transmitted from municipality to counties and from counties to towns. The broad masses of the rural population were like a baby who cries pitifully for food, because it cannot suck enough milk and obtain nourishment, in this case ideological-political nourishment, so that the masses finally ended up suffering for a time from ideological anemia and spiritual atrophy. Institution of the "one school, four networks" system opened up various propaganda and educational channels, as it quickly grew into an effective form of educating the peasants, into a close bond between party and masses, and also into an irreplaceable fighting front and medium in basic ideological-political work.

Second, it provided a flexible and varied pattern of education, and as such was well received by the masses. At the same time as excellent traditions in former ideological-political work were maintained, the former practices of raising a big hue and cry, of one-sided lecturing, and of one-sided following one leader, were abandoned, and instead ideological work was instituted that eliminated anxieties and resolved difficulties, work which was political, cultural, and scientific-technical education with precisely targeted objectives. Especially through the development of the "two waters for one herd" system, closely related to the institution of rural commodity economy, and through the various "one school, four networks" activities, the peasants were liberated from the fetters of small-scale peasant economy and from the outmoded ideologies, conventions, and bad customs of feudalism. They were led to devote themselves energetically to the development of commodity economy, and were led toward the road to prosperity through diligent work. For instance, in Suixi County, 86.9 percent of all rural party members participated in the movement for closer contacts with the local households. They performed thoroughgoing and painstaking ideological work, and with education and guidance supported the peasants in the development of commodity production, with the result that last year 6,920 households among those contacted by the party members—making up 60.7 percent of all households contacted—escaped from poverty and attained prosperity. Lianjiang

County made use of township and village culture rooms to enhance general and scientific-technological education of the peasants. Last year they held 496 training classes in various technical skills, in which over 42,000 peasants participated as trainees. In the said county, the village of Huangnitangcun, in the jurisdiction of Qingping town, had been generally known as very poor, but at their culture room the peasants learned the techniques of growing fruit trees, and they opened up wasteland and planted orange trees, from which they had a good harvest which brought each person over 2,700 yuan of income last year.

Third, the "one school, four networks" system occupied and consolidated all ideological-cultural positions in the countryside, which helped clean up the social atmosphere in the rural areas. Some years ago, when the rural economy began to prosper, the living standards of the peasants improved, but in some places superstitions increased their stupefying hold on the people, collective gambling weakened the will for ambitious struggle, lewdness corroded the pure and honest mentality, and luxury destroyed the virtues of frugality and thrift. In some localities, our positions were lost, our contingents dispersed, and confusion gripped the minds of the people. Since the initiation of the "one school, four networks" system, socialist ideological education was strengthened, and healthy and beneficial cultural, recreational, and sports activities were instituted, which attracted the large number of peasants, especially the younger generation, enriched their spiritual life, and promoted new social habits. The young women of Hongpaicun village of Haitian town in Haikang County had for many years actively taken part in cultural activities and thereby had been nurtured in the new social atmosphere, so that for quite a few years they firmly maintained the custom of not accepting betrothal gifts, not preparing wedding feasts, and making it common practice to conduct weddings in the new form. Zhongjancun village of Xialiu town in Suixi County was known far and wide as an arrogantly domineering village, but since it connected up with the radio transmissions, instituted a culture room, and launched rich and varied cultural and recreational activities, the villagers, under the subtle influences of the education to which they became exposed, showed increasing love of country, love of their collective, and a spirit of finding pleasure in helping others. This gave a completely new complexion to village customs and the customs of the people. Two young fellows who had been habitual troublemakers became the mainstay caretakers of the culture room. By now, Zhongjancun village has become a village of the "four no's," namely no feudal superstitions, no quarrels and fights, no thefts and cheating, and no lewdness and gambling, so that the municipality bestowed on it the title of "culture village."

## III

The institution of the "one school, four networks" system throughout Zhanjiang Municipality has by now assumed a certain dimension and truly proven successful

with ever more evident effects. Reviewing the past practice of somewhat more than two years, the following insights have been gained:

First, the leadership at all levels must take operation of the system firmly in hand as an important part of the buildup of spiritual civilization; it must be placed on the agenda of the day by all party committees, and its development must be effectively accelerated. For instance, the party committee and the government of Suixi County had regularly called meetings in this connection, studied necessary dispositions, and with regard to the proper initiation of a culture network throughout the county, had willingly "expended energy, manpower, and money." In the last few years, local public finance has allocated over 20 million yuan, and the population has raised almost 30 million yuan. Throughout the entire municipality, 16 moving picture and other theaters have been built, also 688 basketball courts, 298 track and field courts, 16 culture centers, and 165 culture rooms, in addition to the formation of over 270 spare-time theatrical and other performing groups. A propaganda cadre of the said county said with much emotion: "Because the leadership took a hand in this matter, it could easily be made a success; the 'one school, four networks' system was as gratifying to us as the proverbial fish's feelings on being returned to its element. The flower of spiritual civilization is speedily coming into full bloom."

Second, serious attention must be paid to resolving actual problems during the developmental process. In the past, culture rooms and broadcast facilities were quickly set up and they fell equally quickly into disuse; they were set up with big fanfare and went down with a big crash. How was it possible, in the last few years, that the "one school, four networks" system could be kept going in Zhanjiang Municipality, and could, furthermore, be consolidated and developed? Seeking for the reasons we find that it conformed to the needs of the new situation of reform, opening up, and commodity economy. Even more important is also that extreme importance was attached to resolving actual problems in the development of the "one school, four networks" system. First, certain economic and material preconditions had to be provided. For instance, in Hengshan town of Lianjiang County, funds were raised by having the town government make some contribution, the units make some contributions, and the general public raise some money, all to go to the establishment and development of the "one school, four networks" system. The culture room in Chengxicun village of Xixiang County was instrumental in starting a fish pond and in initiating tourism, using the income to build a soccer field, and pay for a small library. Quite a few culture rooms in Haikang County operated small shops and took on contract operations, or designated a certain number of collective fish ponds or certain pieces of land to be let to private individuals under contract, using the rent income to pay for culture room activities or to maintain the wired radio facilities. Second, there had to be a very competent contingent of administrative personnel. The party

school, the broadcast stations, and the culture rooms all require full-time or part-time administrative personnel. These people must be of good ideological quality, and must also be up to the requirements of the job, and have a good sense of responsibility. For instance, Suixi County made it a rule to select 20 from among all cadre candidates who had applied, to fill all full-time cadre positions in the party schools of all towns/townships. The culture room of Haikang County arranged for the simultaneous building of the village school, and the teachers and students of the school took part in the building and operation of the culture room. In Naliangcun village of Shicheng town in Lianjiang County there was a "peasants' playground," where "nurturing culture by dispensing culture" activities were launched and a part of the income generated thereby was used to pay for administrative personnel. Third, new material must continuously be provided. For instance, in the wired broadcasting facility of Shitou town of Lianjiang County and in Potou town of Potou district, it had been arranged to have one loudspeaker in each household, and this was kept up for many years, working ever so much better the longer it lasted. The crucial point was that they effectively prepared for their own program items, regular renewals, and started short programs of what the general public likes to hear, giving all their attention to serving the masses.

Third, the demand for normalization, introducing a competitive mechanism, and effectively carrying out examination, evaluation, and critical comparisons. At the beginning of last year, the propaganda department of the municipal party committee formulated a "Demand for Normalization of the 'One School, Four Networks' System in the Towns/Townships of Zhanjiang Municipality," so that a soft task was turned into a hard norm, and furthermore made it part of the 100-point assessment of party committee work under the responsibility system. On the basis of each year's general examination and critical comparison carried out in all towns/townships and in all counties and districts, an examination and critical comparison will be organized in the municipality to commend those who had performed meritoriously, to review experiences, to try to overcome weak links, and to promote healthy progress in future.

Fourth, strengthening the buildup of the basic-level contingent charged with political work. We must have the propaganda committee members, propaganda personnel, culture station, and the full-time cadres of the book, newspaper, and periodicals distribution stations play an active part and show creative spirit in the development of the "one school, four networks" system, and also bring into play the rural basic-level party branches and youth league branches as a bastion in our struggle. At the same time, all members of the Youth League, the Women's Federation, and the educational, judicial, and agricultural science departments at all levels must closely coordinate their activities. We must have them take concerted action and exercise joint

control, and, as a consequence, have the entire municipality's "one school, four networks" project make substantial progress toward the objective of normalization and move the undertaking of rural spiritual civilization to a new higher stage of perfection.

### **Guangdong Investigates Pornography, Gambling**

*HK2905024190 Guangzhou Guangdong Provincial Service in Mandarin 1000 GMT 25 May 90*

[Excerpt] The Guangdong Provincial Commission for Social and Cultural Administration has recently sent personnel to some 11 cities and more than 20 counties and towns across the province to carry out investigations.

The results of the investigations show that imported pornographic video tapes and publications are still on sale in some parts of the province, and gambling activities still exist in some tourist spots.

The responsible person of the General Office of the Guangdong Provincial Commission for Social and Cultural Administration called for all areas of Guangdong to immediately carry out a general examination of their respective cultural markets so as to confiscate pornographic publications and video tapes and check the spread of the "seven vices." [passage omitted]

### **Literary Circles in Guangdong Study Deng's Views**

*HK2505154190 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 25 May 90*

[Text] Guangdong's literary and artistic circles held a meeting in Zhanjiang City the day before yesterday to exchange experiences in studying Deng Xiaoping's literary and artistic views.

The meeting was attended by a total of more than 70 people, including officials of the Guangdong Provincial Association of Literature and Art, associations of writers and artists at various levels in Guangdong, associations of literature and art of various cities of Guangdong, and some of Guangdong's best-known writers and artists.

Qin Mu, a famous writer and executive chairman of the Guangdong Provincial Association of Literature and Art, delivered a speech at the opening session of the meeting.

In his speech, Qin Mu said that Comrade Deng Xiaoping has made brilliant and penetrating expositions on socialist literature and art. Comrade Deng Xiaoping's expositions are principles guiding China's literary and artistic development. Qin Mu said that opposing bourgeois liberalization still remains an important topic for the Chinese writers and artists at present. Therefore, all the comrades in China's literary and artistic circles must bravely criticize and resolutely oppose all types of literary and artistic views aimed at negating the CPC

leadership and China's socialist system and fight against all types of ugly, decadent, and corrupt social phenomena.

### **Guangdong To Stop 'Indiscriminate' Fee Collection**

*HK0405054590 Beijing ZHONGGUO XINWEN SHE in Chinese 0903 GMT 23 Apr 90*

[Report: "Guangdong Decides To Thoroughly Straighten Out Three Chaotic Phenomena"—ZHONGGUO XINWEN SHE headline]

[Text] Guangzhou, 23 Apr (ZHONGGUO XINWEN SHE)—The Guangdong Provincial People's Government recently decided to thoroughly screen and straighten out the prevailing phenomena of indiscriminate collection of fees, indiscriminate imposition of fines, and indiscriminate apportionment of quotas.

It is learned that in recent years Guangdong Province has straightened out these phenomena on several occasions but the problem is still very serious. In defiance of party discipline and state law, many departments collect fees and apportion quotas at will under all sorts of names. Moreover, the phenomena of extending or abusing one's authority in meting out punishment and "using fines to substitute for punishment" have also occurred from time to time.

For this reason, the Guangdong Provincial Government issued a circular calling on people's governments at all levels and relevant departments to attach close importance to the work of straightening out these phenomena and regard it as an important matter of forging close ties between the party and the people, stepping up the building of a clean government, and stabilizing the overall situation in Guangdong.

The circular stipulates that the contents of the current work include the collection of fees and fines, as well as apportionment of quotas under all sorts of names, stipulated by the state or its competent departments and by the provincial and city governments, as well as their relevant departments. A method of integrating self-examination and examination at selected places and of examining while rectifying will be adopted. Moreover, efforts should be made to amplify the relevant management system in the course of straightening out.

Guangdong Vice Governor Yu Fei is head of the leading group to screen and straighten out the "three chaotic phenomena."

### **Guangdong Strengthens Ideology Among Armed Police**

*HK3004032990 Guangzhou Guangdong Service in Mandarin 1000 GMT 26 Apr 90*

[Text] The education and publicity meeting to strengthen faith in socialism in the Armed Police Corps was held this morning in Guangzhou. It was pointed out

at the meeting that Armed Police Corps contingents all over the country must carry out education in strengthening faith in socialism, vigorously foster the Armed Police Corps' ideology and other areas, and resolutely defend the socialist cause. Xu Shouzheng, political commissar of the Armed Police Corps, Xu Leichang, vice director of the Central Propaganda Department Standing Committee, and Liu Yandong, secretary of the Communist Youth League Central Secretariat Standing Committee, spoke in turn at the meeting.

Xu Shouzheng, political commissar of the Armed Police Corps, said: "To thoroughly carry on this kind of education among armed police force personnel will lay a resolute ideological foundation for strengthening their military strength, ensuring their always being qualified politically, and ensuring the accomplishment of various tasks with emphasis on tackling contingent incidents.

At the meeting, Xu Leichang, vice director of the Central Propaganda Department Standing Committee, spoke highly of the Guangdong Provincial Armed Police Corps 2d Squad for their experience in carrying out this kind of education and for the significance of their paying attention to this work. He believed that it is timely and effective for the Armed Police Corps to pay attention to this and that they should vigorously promote their advanced experience, promote this experience as a general principle among the people, thoroughly carry on this kind of education among the people across the country, oppose bourgeois liberalization, and maintain the stability of the overall situation.

#### Guangzhou Establishes Translators Association

HK0405042290 Beijing CHINA DAILY in English  
4 May 90 p 3

[By staff reporter Li Zhuoyan]

[Text] Guangzhou—At a recent gathering of about 500 translators, scholars and engineers, the Guangzhou Science and Technology Translators' Association (GSTTA) was established "to promote economic and scientific exchanges between Guangzhou and the foreign countries."

Speaking at the meeting, Shen Zongfan, an official from the Guangzhou Association of Science and Technology said this translators' association, a nongovernmental organization, "has been established because despite the fact that Guangzhou has increasing scientific and technical exchanges with foreign countries, the improvement of the level of translation has not caught up."

The association, he said, was thus born to summon up efforts of the talents in this area and to train a new group of translators and interpreters.

Activities the association will undertake include organizing academic exchanges with foreign countries, setting up training classes in translation and interpretation, providing translation and consultative services for the

units concerned and publishing books, periodicals and other materials in the areas of science and technology.

The 500 members now registered with the association are also members of the Guangzhou Translators' Association, the first such association in the country which was set up in 1981. They all have been involved in translation in science and technology.

#### Arms Trafficking Exposed in Guangdong

HK0305043190 Hong Kong WEN WEI PO in Chinese  
19 Apr 90 p 3

[Report by reporter Chou Wen-chiang (0719 2429 1730) in Guangzhou: "Inside Story of Guangdong Arms Trafficking—Interview With Deng Guoji, President of Guangzhou Intermediate People's Court"]

[Text] Guangzhou, 18 Apr—On 12 April, this reporter interviewed Deng Guoji, president of Guangzhou Intermediate People's Court. Deng said: According to statistics from the relevant department, during the past two years public security departments in Guangzhou have cracked over 30 cases of firearms and ammunition trafficking and seized more than 100 handguns, military or homemade, and over 1000 cartridges. These firearms and ammunition were largely bought by the evil arms traffickers from inhabitants along the Sino-Vietnamese and Sino-Burmese borders in Guangxi and Yunnan. A small number of these were locally made on Hainan Island.

#### Vietnam and Burma Are Sources of Firearms and Ammunition

Court president Deng was very worried about the present situation in arms trafficking and cases of armed robbery or homicide which constantly happen in Guangzhou. He said that the firearms and ammunition ferreted out so far constitutes only a small portion of the total and a considerable amount is believed to remain in the hands of some people or have been obtained by evildoers in Hong Kong and Macao. This reporter has learned from different sources that after the Burmese People's Army disbanded, large quantities of weapons went to the common people. In those places, a handgun is sold at a maximum price of several hundred yuan and sometimes can be bought for under 100 yuan. In Vietnam, because there is no longer any war to fight, large quantities of firearms and ammunition, which were unconditionally offered by China and the Soviet Union to the then North Vietnamese resistance forces for use against aggressors, are now in the hands of the border inhabitants. The traffickers in firearms and ammunition now active in Guangzhou are mostly ex-convicts who have been released after serving their sentences. They buy firearms and ammunition at the Sino-Burmese and Sino-Vietnamese borders, either to smuggle them abroad or for armed robbery, drug trafficking, waylaying, burglary, homicide, rape, or even resisting arrest and shooting police on duty. This creates a very bad social impression.

**Culprits in Serious Cases Should Be Promptly Punished**

Of the 25 convicts who have recently been sentenced to death or received first trial, 12 have been accused of illegal trafficking in firearms and ammunition, robbery, homicide, rape, or smuggling weapons and ammunition. At this point, Deng stressed that the court in Guangzhou will, once proceedings are instituted by a procuratorial organ, see to it that firm, prompt punishment is meted out to all criminals who have seriously jeopardized public security, especially those engaged in firearms and ammunition trafficking, armed robbery, homicide, rape, or larceny.

**Tse Chi Keung Bought 30 Handguns**

Court President Deng also pointed out that the criminal from Hong Kong, Tse Chi Keung [6200 1807 1730], who was sentenced to death at his first trial, came to Guangzhou from Hong Kong last July. He conspired with Wei Yongqian [7279 3057 0051] to traffick in firearms and ammunition and to smuggle them abroad for money. He also collaborated with Liu Xiaoqing [0491 1420 7230], Huang Runkui [7806 3387 5525], and Li Weibin [2621 0251 2430]. Huang went to the Sino-Vietnamese border to make the purchase, Liu was responsible for the conveyance, and Li handed the arms to Tse who then smuggled them abroad. Each handgun, complete with six to eight cartridges, was sold at prices of from 2,500 to 3,000 yuan. From February to July last year, Huang bought 35 handguns and 200 cartridges altogether. He gave 34 handguns to Liu on seven different occasions. Liu smuggled 42 handguns and over 300 cartridges, which he bought himself or received from Huang, to Guangzhou on six trips. Tse Chi Keung bought 30 handguns and more than 190 cartridges in Guangzhou on six occasions. He disassembled 19 handguns and attempted to smuggle the parts and more than 110 cartridges, either carried on him or hidden in his luggage, out of the country.

Court President Deng pointed out that it is the essential responsibility of judicial departments to mete out, according to law, heavy punishment to all criminals who seriously jeopardize public security, to protect the lives and property of the people and to safeguard social stability. It also requires close cooperation and energetic support from all quarters of society.

**Hubei Official Supports Crackdown on Crime**

*HK0506033490 Wuhan Hubei Provincial Service in Mandarin 1130 GMT 3 Jun 90*

[Excerpts] From 31 May to 1 June, Tian Qiyu, a member of the Standing Committee of the Hubei Provincial CPC Committee and concurrently secretary of the Hubei Provincial Political and Legal Affairs Commission, inspected Xiaogan City and Hanchuan County.

There he held talks with cadres at the grassroots level and listened to their views on the ongoing campaign aimed at cracking down on serious crime. [passage omitted]

Comrade Tian Qiyu said that under the leadership of the CPC Committees and people's governments at all levels in Hubei, the current campaign aimed at cracking down on serious crime has already yielded preliminary results. However, the campaign has just started. In order to win a complete victory in the campaign, all comrades concerned in Hubei still have to complete a lot of arduous tasks and do lot of work. It is necessary to mobilize the broad masses of the people to participate in the campaign, this being the key to the success of the campaign.

Comrade Tian Qiyu held that with the strong leadership of the CPC Committees at all levels, support of the broad masses of the people, and efforts of the political and legal departments at all levels, Hubei will certainly be able to win a complete victory in the current campaign and maintain sustained social stability. [passage omitted]

**Taiwan Reporters Visit Shenzhen**

*HK0705121090 Guangzhou Guangdong Provincial Service in Mandarin 0400 GMT 6 May 90*

[Text] A group of 32 Taiwan reporters arrived in Shenzhen the day before yesterday and started two days of reporting activities in the Shenzhen Special Economic Zone.

Yesterday afternoon, Zhu Yuening and Li Guangzhen, vice mayors of Shenzhen City, and some other city leaders, met with and briefed the Taiwan reporters on Shenzhen's development and answered questions raised by the reporters.

Vice Mayor Li Guangzhen said that over the past few years, Shenzhen has rapidly increased economic contacts with Taiwan. More than 80 enterprises with Taiwan investment were set up in Shenzhen in the second half of 1989. And more than 40 enterprises with Taiwan investment have been set up since the beginning of this year. The vice mayor said that this is mainly because Taiwan investors are entitled to more preferential treatment in Shenzhen compared with other investors in the city. For instance, there is no time limit set for operation of enterprises with Taiwan investment in Shenzhen; Taiwan investors can authorize and entrust their relatives living on the mainland to operate their enterprises in Shenzhen for them; Taiwan investors who invest \$ 0.5 million or more in Shenzhen can have their relatives acting as their agents settle down in Shenzhen City.

All the Taiwan reporters showed great interest in Shenzhen's investment environment.



## NORTHEAST REGION

### Restrictions Placed on Heilongjiang TV Station

*SK2005073290 Harbin Heilongjiang Provincial Service in Mandarin 2100 GMT 18 May 90*

[Text] The provincial radio and television department recently issued a notice to order the Fujin Television Station, which had violated propaganda discipline and policies to a serious extent by arbitrarily broadcasting television dramas, to carry out rectification within a definite time.

According to an investigation by the Jiamusi City Radio and Television Bureau, the Fujin Television Station broadcast 21 television dramas and [words indistinct], some of which were from abroad, from 15 January to 26 February this year, despite the repeated injunctions of the Ministry of Radio, Film, and Television and the provincial radio and television department prohibiting county-level television stations from producing literary and art programs of their own and strictly banning arbitrary broadcasts of television dramas. In this way, it undermined propaganda discipline to a serious extent, and interfered with the normal television [words indistinct] of its surrounding counties and farms, thus creating a very bad influence.

The provincial radio and television department decided to order the Fujin Television Station to carry out rectification within a definite time. Within this period, it can only relay in a timely and accurate manner the programs of the Central and the Provincial Television Stations, and is prohibited from identifying itself with or producing any program of its own. During the investigations on the Fujin Television Station's violation of propaganda discipline, it was discovered that some city and prefectural television stations sold television dramas to county-level television stations and relay stations, not only violating propaganda discipline to a serious extent but also infringing on the copyright of others. The provincial radio and television department urged all city and prefectural television bureaus to conscientiously examine their subordinate county-level television stations and relay stations and correct any violation of regulations whenever it is discovered.

### Heilongjiang Governor Discusses Criminal Gang Case

*SK2005102490 Harbin Heilongjiang Provincial Service in Mandarin 2100 GMT 7 May 90*

[Text] On 5 and 6 May, provincial governor Shao Qihui went to Yanshou County to inspect the effort to comprehensively improve public security and visited the people who had suffered a lot from the hooligan gang of (Xu Changjiang), (Xu Changling), and (Zhang Jingyuan). He pointed out that we should focus on dealing stern blows to gang crimes when working to improve public security

at present and mete out strict and prompt punishment to gang criminals who are deeply hidden and enjoy plenty of protection.

Shao Qihui, provincial governor; Tang Lanting, president of the provincial Higher People's Court; Jia Chengwen, chief procurator of the provincial People's Procuratorate; Bai Jingfu, director of the provincial public security department; (Sun Yongjuan), deputy director of the general office of the political and legal leading group of the provincial party committee; and (Shen Cuihua), commissioner of the Songhuajiang commissioner's office, arrived in Yanshou at noon on 5 May. On that afternoon they traveled on foot, divided into five groups, to visit the victims.

In the office of the No. 19 neighborhood committee of the (Fendou) Street of (Lianshou) Town, after visiting a 91-year-old man (Tao Min), Provincial Governor Shao Qihui held a heart-to-heart talk with the cadres involved in arresting the gang and the neighbors of (Xu Changjiang). Some people exposed the crimes of the criminal gang of (Xu Changjiang), and praised the county party committee and government for rooting out the criminal gang of (Xu Changjiang) and ridding people of the scourge.

The criminal gang that was rooted out in Yanshou County began to take shape in July 1987. It had (Xu Changjiang), (Xu Changling), and (Zhang Jingyuan) as its nucleus, (Li Juan), (Yu Shengwu), (Zhao Dejun), and (Li Qingyang) as its backbone members, and their relatives and friends serving as the bridge. The ideological foundation of the gang was the gang members' common psychology acquired from their experience of having been dealt with by public security, procuratorial, and judicial organs and from being dissatisfied with reality. The gang rode roughshod over others in their home town. During the period of more than two years during which they played the tyrant in Yanshou, (Xu Changjiang), (Xu Changling), and (Zhang Jingyuan) openly engaged in hooliganism and created trouble. They beat up people, illegally held them in custody, set up illegal courts, practiced extortion, robbed people of their money and property, and kept weapons to commit violence and to demand money. On the evening of 8 January, while driving his car, (Liu Peiqiao), owner of a private retail grocery store on (Tuanjie) Street of (Lianshou) Town, came across (Xu Changjiang), who was also driving a car. (Xu Changjiang) asked for some oil from (Liu Peiqiao) and had a quarrel with him. Together with (Li Shusen) and (Li Qingyang), (Xu Changjiang) hit (Liu Peiqiao) until he fell unconscious. Then (Han Feng) used a knife to puncture all the tires of (Liu Peiqiao's) car. After (Liu Peiqiao) was hospitalized, (Xu Changling), (Yu Shengwu), (Xu Changjiang), and (Li Shusen) went to the hospital twice to create disturbances and to force (Liu Peiqiao) to leave the hospital.

After hearing about the ordeal of (Liu Peiqiao) and his wife, provincial governor Shao Qihui encouraged them to struggle against evil persons. (Liu Peiqiao) and his

wife expressed heartfelt thanks to the provincial governor for his visit. (Liu Peiqiao) said: With the provincial governor to back me up, I can fight the criminal gang to the end.

During a talk with the masses, provincial governor Shao Qihui said: You should have trust in the party, the government, and the 240,000 people of Yanshou County. Entrusted by the provincial party committee and government, I have come to Yanshou. The very purpose of my visit is to show you that we will thoroughly investigate the case, no matter who is involved.

On the morning of 6 May, Shao Qihui and other leading comrades heard a report given by (Li Hongchao), secretary of the Yanshou County party committee, on the investigation and handling of the case of (Xu Changjiang's) gang. Shao Qihui said: The criminal gang headed by (Xu Changjiang), which was rooted out in Yanshou County, has given us a great lesson; that is, an important and prominent issue in our current effort to deal blows to criminal activities throughout the province is how to root out the criminal gangs which are deeply hidden, well-organized, and receive plenty of protection. The central authorities have decided to muster efforts to deal blows to serious criminal activities from now until National Day. Yanshou County is off to a good start in this work in our province. Therefore, leading persons at various levels and all Communist Party members and cadres should further enhance their understanding of the importance of improving public security and dealing blows to criminal activities, implementing the principle of dealing strict and prompt blows to criminal offenses, and striving to create a stable and united social environment throughout the province.

### **Harbin Punishes Power Facility Saboteurs**

*SK2905015990 Harbin Heilongjiang Provincial Service in Mandarin 2100 GMT 25 May 90*

[Text] On 25 May, Harbin City carried out an open trial to strictly punish convicts who have destroyed and stolen public property. During the trial, the city's intermediate people's court condemned (Zhang Wenzhi) and (Zhang Wenjin), the evil convicts who destroyed power facilities and who come from Wuchang County, for committing 27 crimes during the period from February 1984 to February 1989 in which they seriously destroyed farmland irrigation systems and directly caused economic losses of more than 168,000 yuan.

### **Jilin Plans Campaign Against Criminal Activity**

*SK0506004790 Changchun Jilin Provincial Service in Mandarin 0930 GMT 28 May 90*

[Text] According to information obtained by our reporter (Guan Yujie) from the provincial working conference on the campaign to deal severe blows to serious criminal offenses which ended on 28 May, the province will concentrate on launching a province-wide campaign to deal severe blows to serious criminal offenses from now until the National Day.

While analyzing the province's social and public security, the conference pointed out: At present, the province's situation in politics, economics, and social stability is stable in general. However, we must clearly take note that the struggle against hidden crimes is very arduous and complicated; many latent elements of instability remain; the trend of gradually worsening serious criminal offenses has not changed; and the situation in social order and public security is still very grim. For this reason, launching a province-wide campaign of dealing severe blows to serious criminal offenses is [words indistinct]. This is of extremely great significance in stabilizing the provincial political, economic, and social situation and in ensuring security during the Asian Games and National Day.

The conference pointed out: The current campaign is aims to concentrate on dealing severe blows to serious criminal offenses with set emphasis and set purpose in adherence with the principle of dealing blows as promptly and rapidly as possible according to laws. The emphasis of the current campaign is placed on counterrevolutionaries who spread counterrevolutionary propaganda and attempt to create new turmoil and a rebellion, criminals guilty of serious violent crimes; serious criminal offenders guilty of murder, robbery, hooliganism, rape, serious theft, and hardened theft; criminal gangs, escaped criminals, and criminals fleeing here and there; criminals stealing and destroying communications, power, and farm irrigation facilities and stealing and killing domestic animals; and [words indistinct] criminals who hold up passengers and rob materials and goods carried by railways and on highways.

The conference called on various localities to [words indistinct], and make meticulous preparations for this campaign. Liu Xilin, Standing Committee member of the provincial party committee, deputy secretary of the political and legal commission under the provincial party committee, and provincial vice governor, attended the conference and made a speech.

### **Liaoning Finds Civil Service System Research Society**

*SK2505003590 Shenyang Liaoning Provincial Service in Mandarin 2200 GMT 19 May 90*

[Text] Over the past few years, the vast number of personnel cadres and theoretical workers in the province have extensively and thoroughly conducted theoretical study and practical activity to establish a civil service system with Chinese characteristics. Meanwhile, some reforms in the cadre and personnel systems carried out by the province have been gradually linked with the civil service system, and relatively good results have been achieved in this regard.

Over the past few years, our province has made many preparations for comprehensively carrying out the civil service system. For instance, the province has selected and employed more than 1,500 better-qualified government functionaries through province-wide open examinations, thus adding vitality to government organizations. The province also comprehensively carried out an

annual appraisal system. Last year, more than 100 provincial, city, and county organizations experimented with this system and some experience was gained. Beginning this year, this system will be popularized throughout the province. In formulating promotion and demotion systems, some stipulations and principles of the civil service system have been studied and applied. All these achievements have already attracted the attention of fraternal provinces and municipalities as well as state departments concerned.

To conduct theoretical study and practical activity for implementing the civil service system in an even more extensive and penetrating manner, and to facilitate the establishment of a civil service system with Chinese characteristics, some personnel cadres and theoretical workers in the province established the provincial civil service system research society in Shenyang a few days ago. This is the first provincial-level organization engaged in research of this system in the country.

#### **Xinjiang Party School Forum Stresses National Unity**

*OW2805085790 Urumqi Xinjiang Television Network in Mandarin 1300 GMT 25 May 90*

[By station reporter Chen Yunzhi; from the "Xinjiang News" program]

[Text] [Video opens with a wide angle shot of a conference room with approximately 100 students seated.] The

autonomous regional party school held a forum on national unity on 23 May. At the forum, students of various nationalities had a lively discussion on the great significance of promoting national unity for safeguarding the motherland's unification.

[Camera focuses on speakers reading from prepared scripts.] (Li Ke), a Han student from Akto County, who was brought up by an Uygur nanny, spoke of her profound experiences among people of various nationalities who have helped each other and lived in harmony.

In repudiating the reactionary words and deeds of a handful of national separatists, some minority students from southern Xinjiang cited the tremendous changes that have taken place there over the past four decades. The minority students said: Xinjiang is a multinational region. In its long historical development, the people of various nationalities have shared weal and woe and made their share of contributions to developing, safeguarding, and building Xinjiang. They have lived and worked together over a long time, thereby binding themselves closely together. The historical experience reveals that, when there is national unity, our cause prospers, and when national unity is damaged, our cause encounters setbacks.

(Ruosi Usiman), secretary of the party committee of the autonomous regional party school, said: A party school is a place for training cadres. All students must instill in their thinking the Marxist outlook on nationalities. They should set good examples in publicizing and implementing the party's policy on nationalities.

**NAC Members Discuss Kuomintang Mainland Policy***90CM0205A Taipei TZULI WANPAO in Chinese  
22 Apr 90 p 5*

[Article: "Mutual Exchanges Are Already Reality While Policy Still Awaits Determination"]

[Text] Policy concerning the mainland and concerning relations between the two sides of the Taiwan Strait will be main topics of discussion at the NAC [National Affairs Conference]. Fifteen members of its preparatory committee have agreed to be interviewed by reporters of this newspaper, and the following are their views on whether the government should break with its official "three no's" policy [no contacts, negotiations, compromises with Communist China] and permit the "three exchanges" [exchanges of mail, air and shipping services, and trade with Communist China]:

**Chiang Yen-shih** [5592 1750 1102] (senior adviser to the president): In my personal opinion, since government personnel are allowed to participate in international conferences on the mainland, interchanges with the mainland will in future certainly gradually broaden, and economic and trade exchanges too will increase. Without exchanges between the two sides of the strait, there would be no hope for the achievement of conformity, and even less reason to talk of reunification.

Since Taiwan presently possesses huge economic power, Taiwan's experiences should be introduced to the mainland. China belongs to us, and we should also take a hand in mainland affairs; we should all adopt a more extended long-range vision.

Among the "three no's" in the official policy, relaxation may be possible in the "no contacts" and "no negotiations" policies. Time might resolve all problems, because the regime on the mainland cannot last long.

**Wu Feng-shan** [0702 0023 1472] (nonparty supplementary National Assembly delegate): In my opinion we should definitely abandon the "three no's" policy in the coming adjustment of our mainland policy. Abandoning the "three no's" would of course mean instituting the "three exchanges" and the "four interchanges," and also that we should, furthermore, lower our hostile posture and enhance mutual respect. I believe the NAC will come to a conclusion on these topics.

I would like to emphasize that the future basic law can possibly give expression to this new harmonious relationship between the two sides of the strait. After transformation at the "upper reaches" is accomplished, there will be smooth sailing in the political reforms at the "lower reaches"!

**Kang Ning-hsiang** [1660 1337 4382] (publisher of SHOUTU TSAOPAO [CAPITAL MORNING NEWS]): In my opinion there are three stages that must be considered in the relations between Taiwan and Mainland China. First, in all contacts with the mainland,

Taiwan's security interests must be fully protected. Based on this principle, Taiwan may conclude with Communist China a "nonbelligerency accord," with a proviso for international supervision. This would dispel any hostile intentions on both sides of the Taiwan Strait, and furthermore lead to peaceful coexistence. Second, for all exchanges and contacts, whether for family reunions or tourism, or of a economic, social, or cultural nature, norms should be set up to be observed in all government-to-government and person-to-person relations. There should also be an intermediary agency to arbitrate any disputes that may arise from these exchanges. Third, having arrived at this stage, both sides could then allow truly free movement in both directions. If this were to come about, there would be no further problem with the "three no's" and "three exchanges."

**Chang Ching-yu** [1728 0079 5148] (president of National Chengchi University): At the present stage, when there is no possibility to achieve unification, the government must of course maintain the "three no's" policy, out of consideration for the state's security interests, but it may permit mutual visits and contacts between people. However, should some radical changes be instituted on the mainland, such as allowing competition among different political parties, allowing freedom of speech, renouncing military action against Taiwan, abandoning the "four insistences," we should then formulate a mainland policy based on the new objective situation.

According to my observations, the present leadership stratum in Communist China (Deng Xiaoping, Chen Yun, Yang Shangkun, and others) shows little capability for change, but these people will last at most another three or five years. During any such period of change, we must be watchful at all times.

At present, some people hope, for reasons of personal or economic interests, that the government will speed up contacts with Communist China, but the government must take the interests of the entire population into account and cannot act too hastily. However, the relation between the two sides of the strait is not immutably fixed, it must be a relation of benign mutual changes.

**Hsieh Shen-shan** [6200 3234 1472] (member of the Legislative Yuan): In my opinion, the future relation between the two sides of the Taiwan Strait must definitely be based on the principle of reciprocity. At the same time consideration must also be given to the personal safety of Taiwan's population of 20 million. Whether we will change the "three no's" or institute the "three exchanges," we must not merely satisfy a one-sided desire, without considering the response from Communist China.

**Chang Chun-hung** [1728 0193 1347] (secretary general of the Democratic Progressive Party): Actually, the focus of the argument should not at all be on opening up to the mainland, because the authorities of the ruling party,

who outwardly emphasize the official "three no's" principles, in actual fact are all along monopolizing the political and economic prerogatives in mainland relations. But then they again forbid private direct investments and direct trade, and furthermore rely on the strength of the people to continuously reinforce the "three no's" policy, and thereby restrict their freedom of action.

The KMT [Kuomintang] has always conducted its policy toward Communist China as if in the seclusion of a darkroom; we are absolutely in the dark as to what Chen Hsiang-mei [7115 7449 2734] and Chiang Wei-kuo [5592 4885 0948] initiated when they went to the mainland. We are therefore not opposed to opening up in our mainland policy, but what we are opposed to is that the government operates inside a darkroom. We have to demand that opening up in our mainland policy be carried out in clear view of everyone.

We must no longer regard the Chinese Communists as an antagonistic rebel group, but must regard them as playing a mutually supplementary role, so that relations between the two sides of the strait may become normalized.

Lu Ya-li [0712 0068 0500] (professor at National Taiwan University): The meaning of the "three no's" policy has actually become somewhat blurred because of the trend of events. Forbidding people to go to the mainland has already become an impossibility, and all kinds of private organizations and groups have gone. People are not permitted to go only when it is anything so-called official. However, we cannot overlook the fact that the so-called "official" and the "private" roles have become mixed up, and differentiating between them has become rather difficult. For instance, were the negotiations a few years ago between Taiwan's China Airlines and the mainland Civil Aviation Administration of China private or official? Therefore, any stiffening of the strained situation and declining direct official negotiations with the mainland may have the contrary effect of adversely affecting Taiwan's development. It is really necessary that Taiwan and the mainland formulate, under conditions of peace and mutual benefit, common legal provisions to consolidate their mutual relations.

In my opinion, economic and trade relations between the two sides of the strait cannot be dealt with as one all-encompassing case. Products relating to state security or of a high-tech nature ought not to be traded with the mainland, as that could otherwise have an adverse effect on Taiwan's security and interests, and may easily give rise to internal problems on Taiwan.

In actual fact, Taiwan, although small, is in many respects superior to the mainland, therefore, increased contacts and interchanges with the mainland need not be cause for panic; it is only that, in the interest of security, certain preventive measures must not be overlooked.

Chang Po-ya [1728 0590 7161] (Legislative Yuan delegate): As things are now, the official "three no's" have

already ceased to be effective for quite some time, and the "three exchanges" have actually already been taking place. Soon, a million Taiwanese compatriots will have visited the mainland and some international conferences will also take place on the mainland. Actually, therefore, as the trend of the time has already voided the "three no's" policy, it has now become a matter of urgency, not to be delayed any longer, to determine an official policy that will normalize relations between the two sides of the strait. If that were done, people would enjoy a larger measure of safeguards during their stay on the mainland. Otherwise, we shall always see some people move ahead in advance of state policy, which will have others merely sigh regretfully that "only those who dare will win."

Tsai Hung-wen [5591 7703 2429] (national policy adviser): As to the future mainland policy, since many of our Taiwanese compatriots have already visited the mainland, invested there, built factories, and traded with the mainland, the government should really abolish its "three no's" policy, and should furthermore open up the "three exchanges" with the mainland, and also cultural and other interchanges. Of course, future adjustments of government measures must take into consideration the progress that is being made in exchanges between the two sides of the strait. The time will perhaps be ripe in a year or two.

Hu Fo [5170 0154] (professor at National Taiwan University): Finance Minister Kuo Wan-jong [6753 1238 1369] [Shirley Kuo] went to the mainland to attend the Asian Development Bank meeting, and China Airways must be also considered as having had "negotiations" with the mainland at the time of the Wang Hsi-chueh [3769 6932 3635] incident. It is therefore really nothing but rigid formalism to still emphasize to this day that there must be no "official" contacts, negotiations, and compromises.

In the matter of mainland policy and relations across the Taiwan Strait, problems must first be solved according to the viewpoints on relative sovereignty. The mainland and Taiwan both may claim the right to comprehensive rule, though both lack full actual control, and still, it has proved impossible to cut the many cultural, economic, and trade bonds between the two. Taiwan and the mainland must, therefore, certainly take good measure of each other and set legal norms, to be observed by both sides, and if problems should still crop up there would be even more reason to engage in discussions and negotiations to arrive at new amended legal norms, because policy must be something living and flexible.

As for trade, shipping, and postal exchanges, I believe they can be fully initiated as long as both sides treat each other according to the principles of reciprocity and peace, but the extent of opening up in these respects must also have limitations or cases must be handled according to specific circumstances, because materials and products for national defense or high-tech products must not be traded directly with the mainland, so as not

to endanger Taiwan's future security. As for the prohibition on military personnel visiting relatives on the mainland, there is also some justification for that.

**Huang Hsin-chieh** [7806 0207 0094] (chairman of the Democratic Progressive Party): The "three no's" essentially do not exist anymore. Mutual private exchanges and interchanges have become a reality. Even if the government still noisily proclaims the "three no's," no explicit legal provisions at all are being strictly enforced, so that the "three no's" have become a mere slogan, and the government has lost quite a bit of its prestige by acting as it does.

If we want to establish a relationship between the two sides of the Taiwan Strait, we certainly must take the initiative to negotiate with Communist China and formulate a set of legal provisions acceptable to both sides, also acknowledge that, no matter what happens, both sides will refrain from using armed force. Before official contacts are established, both sides should first recognize each other's laws, and, when both sides return to the international community, they could then more effectively assist each other in foreign affairs.

In the matter of the "three exchanges and four interchanges," there is no need for the government to insist on the principle that trade must be indirect, because that would have third countries reap some of the profits. As it is impossible to prevent private factories from investing on the mainland, the main point is how to adopt and enforce preventive measures in this respect.

**Chen Chang-wen** [7115 7022 2429] (executive director of the Lili Law Office): The temper of the time is background to every government policy. At the present time, the "no contacts" and "no negotiations" parts in the so-called "three no's" policy have to be somewhat adjusted. The "no compromise" part, as far as it refers to organizational problems, must still be maintained. However, contacts and negotiations are the only way to narrow down the differences in the two systems on both sides of the Taiwan Strait and to achieve the ultimate objective of unifying China. There must be not too many conditions imposed or not too many administrative levels involved; the resolution of differences between the two sides must be achieved gradually in subtle and unobtrusive ways.

As far as the "three exchanges" are concerned, trade exchanges and postal services have actually already been instituted, and air and shipping services could be considered. I think arrangements could be made through an intermediary organization; there is no reason why these services could not be instituted. They would be helpful for the establishment of increased contacts. However, there is no need for haste, and private circles should first establish limited contacts. At the same time, the government could use the transfer of investments to the mainland by private enterprises as a bargaining chip and

demand in return that Communist China agree to a certain measure of safeguards, such as protection under law, and so on.

**Huang Yueh-chin** [7806 6390 2953] (professor at National Chengchi University): By the "three no's" policy we have tied down ourselves more than enough, while the policy has been completely ineffective in restraining the other side. This policy, which had proven so utterly ineffectual in restraining the other side but had tied us down hand and foot, is really very unwise. For instance, in the problem of weapons being smuggled into Taiwan, acts that seriously endangered domestic security, how can we avoid talking about it to the Chinese Communists? And still trying to go through the International Criminal Police Organization [INTERPOL] is a ridiculous obstinacy. At a time when existence is at stake, a policy that offers no help to ensure continued existence simply must be appropriately adjusted.

At present, we have already instituted postal services between the two sides of the Taiwan Strait, and I think trade and shipping contacts, too, could be instituted, but these activities must be carried out under orderly norms. The government must not fold its arms in utter helplessness; this could lead to reckless excesses and unwarranted developments.

**Huang Shih-cheng** [7806 4258 1004] (former magistrate of Changhua County): There is actually no reason for the further existence of the so-called official "three no's" policy, in view of the contacts between the two sides of the strait; private investment, tourism, and art, cultural, and sports exchanges are already very frequent. Since there are already all these contacts, things might as well be fixed up nicely, and there should, moreover, be guarantees for people's safety. It would be best to negotiate with Communist China in advance and come to a tacit understanding that there should be no more hostilities. The two sides should jointly formulate a "Law Guaranteeing Safety." This would be a way to normalize relations between the two sides of the Taiwan Strait, and the mentioned "talks, contacts, and agreements" are only problems of a technical nature.

Although the government has not yet explicitly allowed direct trade with the mainland, there is little difference between direct and indirect trade in what is actually going on now, the more so since the trend toward direct trade cannot possibly be stopped. It is therefore necessary to first of all establish a proper relation between the two sides of the Taiwan Strait, and even demand of Communist China a statement renouncing the use of armed force against Taiwan; that would then provide more of a safeguard for the said trade, postal, and air and shipping contacts.

**Chen Yung-hsing** [7115 3057 5281] (member of the Standing Committee of the Democratic Progressive Party): The time has now come for a new assessment of the official "three no's" policy. If state policy will not

respond to the need for an adjustment, private commercial and cultural circles will nonetheless maintain frequent contacts with the mainland, but will then not be able to enjoy the necessary safeguards, and this, contrary to what one would wish, will mean additional worries for the people. We must therefore establish a firm position in our mainland policy on the relations between the two sides of the strait, affirming mutual interchanges under conditions of reciprocity and peace.

In theory, regarding relations between the two sides of the strait as a matter of domestic politics would be a very sticky business, because Communist China will first want to reduce the stature of Taiwan, while our country is emphasizing that the mainland is our territory which we have lost, and that would create a mutually tense relationship. Why not, therefore, treat the mainland problem according to methods that we apply to countries with whom we have no diplomatic relations, and in that case, through the help of a third country, maintain semi-official diplomatic relations. This would be the only method that would help Taiwan to achieve, at least for all practical purposes, diplomatic relations.

As to the problem of the "three exchanges," it is quite possible that many difficulties may still be encountered in the technicalities, and we must, therefore, increase the opportunity for mutual contacts and talks, and discuss the "three exchanges" only after we have established the standpoint of reciprocity. Until Communist China responds to us in an attitude of reciprocity between governments, we must not hastily allow exchanges of air and shipping services, commercial exchanges, and mutual postal services.

#### **New Tide Spokesman Calls for New Constitution**

90CM0176C Taipei TZULI WANPAO in Chinese  
20 Apr 90 p 2

[Article by Chang Yo-peng (1728 1635 7720): "Awaiting Consultations—Constitutional Reform and Drafting a Basic Law; Lin Chuo-shui Makes a Strong Push for a New Taiwan Constitution as Highest Priority"]

[Text] Lin Chuo-shui [2651 3424 3055], secretary of the "Taiwan New Constitution Conference" today strongly advocated a new constitution as simpler and cleaner than revising the Constitution or drafting a basic law.

Lin, who is also spokesman for the New Tide faction [of the Democratic Progressive Party], pointed out that, in the midst of the current collapse of constitutional order, the Constitution has come upon a crisis period of stagnation, implementation, appropriateness, and acceptance by the community. These have become a major problem in constitutional politics that cannot be solved by constitutional reform.

Lin feels that procedural limitations are to be expected in constitutional reform, but the presidential and cabinet systems are hopelessly snarled, that there are crises from inequitable separation of powers in the five branches of

government, and organizational problems within the system. Any solution through "constitutional reform" would be tantamount to drafting a new constitution anyway. Furthermore, there are doubts as to whether a reformed constitution would fit the needs. Therefore, reform would only aggravate the internal structural confusion and add to the contradictions in revising or reforming related laws.

He also points out that it is doubtful whether drafting a basic law would take care of all the questions about unification and independence at the lowest cost to society. West Germany could do it because all Germans longed for unification and there was no internal controversy about independence versus unification. Germany's separation was a result of World War II. Therefore, West Germany considered East Germany as "neither part of it, nor a foreign country." Germany's Basic Law, as a result, solved the problem of a foreign-imposed "independence" and the internal aspiration for unification. But Taiwan does not enjoy unanimity for "unification," and, indeed, facts show the existence of sentiment for "independence." The "neither part of it, nor a foreign country" notion cannot solve it.

Lin strongly stresses that only a constitution can resolve the murky demarcation lines of national sovereignty, the relationship between central and local governments, the limitation upon presidential and cabinet powers and unconventional foreign relations. He pushed strongly for a constitutional conference movement to let the people use their rights to draft a constitution in order to see concrete results in constitutional and political reform.

But Lin also clearly emphasizes that such reforms cannot be determined by a single body. If society is not yet prepared to accept a new constitution, an interim basic law might be necessary. But a new constitution for Taiwan remains the highest priority.

#### **Editorial Discusses Legal Status of Taiwan**

90CM0176B Taipei TZULI WANPAO in Chinese  
21 Apr 90 p 5

[Editorial: "'The Uncertainty of Taiwan's Status' Raises Its Head Again"]

[Text] In a report to President Bush on East Asian military affairs, the U.S. Department of Defense stated that Taiwan continues to be an unstable regional problem. Testifying to the Senate Armed Services Committee, Paul Wolfowitz, under secretary of defense for policy, pointed out that Taiwan, the Paracels, and Spratly Islands remain "unsettled status problems." Such statements stunned and shook the government. The Foreign Ministry, in addition to reiterating strongly the position of Taiwan being "only one part of the Republic of China," wired our ambassador to the United States for an in-depth analysis of the background. On a different plane, the persistent proponent for an "independent Taiwan, the Democratic Progressive Party's New Tide organizer, Wu Nai-jen [0702 0035 0088]



expressed the view that the U.S. report demonstrates a possible new assessment of U.S. relations with the Chinese Communists. It seemed to indicate that the United States might not feel that Taiwan's status as part of the Republic of China was engraved in stone and is proposing a different road. This might benefit a future Taiwan.

The Ching dynasty established Taiwan as a province in 1885, and then was obliged to cede it to Japan in 1895. In 1943, at the Cairo conference attended by President Franklin D. Roosevelt, British Prime Minister Winston Churchill and the Republic of China's Generalissimo Chiang Kai-shek, it was decided to return Taiwan to the Republic of China. The terms of the Cairo meeting were reiterated at the Potsdam Conference in 1945 by the Soviet Union, the United States, and the United Kingdom. But, in 1950, to forestall a Communist invasion of Taiwan, President Harry S. Truman issued the "Truman Declaration," disclaiming China's sovereignty over Taiwan. The statement pointed out that, legally, neither the Cairo nor the Potsdam Conference had firmed up Taiwan as belonging to China, but that finalization must await new guarantees of security in the Pacific region, signing of a peace treaty with Japan, and determination by the United Nations. This is the origin of the "Taiwan's status remains unsettled" statement.

The United States has not repeated the "unsettled status" statement since 1972, when it signed the "Shanghai Communiqué" with the Chinese Communists. Now, the U.S. Department of Defense's report to President Bush not only lumps Taiwan together with the status of the Spratlys and the Paracels, but considers Taiwan as "a question of unsettled territorial status." While we cannot determine at this time whether this represents the official view of the White House or of the Department of Defense, it undoubtedly represents concern over Taiwan now being in the midst of controversy as an unstable region.

We have always advocated that maintaining the status quo of the two shores most closely conforms to the stability and balance of the Asian-Pacific region. This also seems to have been the desire of the United States as well. Now, however, the resurfacing by the United States of the question of Taiwan's "status" merits our attention as to the real motivation of the United States.

#### **More Trade Urged With Soviet Union, East Europe**

90CE0208A Taipei LIEN HO PAO in Chinese  
19 Apr 90 p 2

[Editorial: "Undertaking the Important Task of Forging Economic and Trade Relations With the Soviet Union and Eastern Europe"]

[Text] The Czechoslovak Federation of Industry and Commerce delegation, currently visiting Taiwan, has just entered into an agreement with the Foreign Trade Association to set up reciprocating commercial affairs offices. This piece of news has provoked immediate

reaction from the Ministry of Foreign Affairs. On the one hand, they are pleased with the solid improvement in economic and trade relations with Czechoslovakia. On the other, they are concerned that a comprehensive plan of this nature may interfere with plans to establish diplomatic relations with the East European nations.

In the wake of their recent political liberalization and reforms, Communist countries like the East European nations and the Soviet Union have also broadened their economic and trade relations with the outside world. They have been busy entering into bilateral agreements with other governments, securing ties with various international economic cooperative organizations, attracting foreign capital, and setting up joint ventures; these will have far-reaching effects on global development.

Faced with these changes in the Soviet Union and East Europe, the government is aware of the need to seize the moment to augment Taiwan's international position and is ready to make pragmatic decisions and take practical steps. In his recent foreign affairs report before members of the Control Yuan, Foreign Minister Lien Chan announced that Taiwan was considering extending loans and similar kinds of economic assistance to East Europe in return for their friendship and that the government was ready to gradually establish diplomatic relations with those countries. Meanwhile, the civilian sector has been even more active than the government in cementing economic and trade relations with the Soviet Union and East Europe. Not only have groups been visiting those countries and individuals been investing and entering into joint ventures and conducting direct trade, but some have beat the government to entering into agreements and establishing bilateral relations.

If we look closely at the Soviet Union and the East European nations, except for Romania, which has not set her economic goals because of abrupt political changes, and Albania, which has resisted all changes, all have apparently decided to go the way of the market economy. However, because every country has its own background and reform experience, the choice of policy and program, the way each country restructures its economy, and the pace of conversion to the market economy will differ. Nevertheless, these reforms will end the Soviet Union and East Europe's economic isolation and will help merge the world economy into one. Both from the point of Taiwan's economic and commercial strength and her political standing in the world arena, we should strive to capture a larger market, develop better relationships, enhance our international status, and try to benefit one another through economic cooperation and participation. But the systems of Soviet Union and East Europe are different from ours; their laws are different, we have little information about them, and we have a language barrier, all making it very difficult to forge a lasting and steady relationship. But no matter how such relationships may develop in the future, we must pay attention to the following issues:

1. We need to coordinate our steps: Due to many international political factors, it is very difficult for the

government to take the initiative. We must rely on civilian groups or even individuals to get things organized. Although we must accommodate this reality, we should not let everybody do things his own way, which will result in confusion, or even confrontation and conflict, thus offsetting any gains individual efforts may have achieved. Government departments should work with the civilian groups to set up an organizing committee to take charge of unifying and coordinating efforts, so as to avoid incidents similar to the one where the Foreign Trade Association entered into an agreement with the Czechoslovaks to set up reciprocating commercial affairs offices without first consulting the Ministry of Foreign Affairs. This may interfere with official efforts to set up a liaison office representing the government.

2. We need to clarify our basic policy: Since these countries have diplomatic relations with the PRC, we must promptly formulate a policy that separates economics from politics and lay down a basic principle on how to handle matters concerning both sides. It is even more urgent that we draw up a basic legal agreement on how economic and trade matters, such as investment protection, income tax, foreign exchange, and profits, will be handled. On the other hand, we must reach a mutual understanding with the civilian groups that our relations with the Soviet Union and East Europe is not based on the goal of short-term profit maximization and minimization of the payback period; instead, our goal is to develop long-term, stable relationships; our means is to create new markets; our aim is to make the other parties depend on us economically and commercially.

3. We must choose the joint projects carefully: At this point, the government's position is primarily to give those countries economic assistance and loans in the name of the Overseas Economic Cooperation and Development Fund. But economic assistance is only a temporary and convenient measure. Taiwan's economic and business status and balance of payments situation can change and are not reliable, long-term diplomatic weapons. With respect to industries and commodities,

we should promote the moderate to expensive goods. As for Taiwan's tactical purchases, the choice should be domestic constructions and other projects, because those countries are skilled in such fields as marine engineering, civil engineering, transportation system, shipbuilding, and so on.

4. We should be aware of the competition: The Soviet Union and East Europe have opened their doors to all countries, not just Taiwan. Therefore, we must be aware of everything that is going on, and we cannot just think of ourselves and indulge in wishful thinking. Japan, Korea, Germany, Austria and other countries have been busy cementing economic cooperation relations with these countries also. We must keep track of and ascertain their goals, projects, scale, tactics, and progress. Meanwhile, like Hungary in 1995, they may become members of the European Community too, and we must ascertain the consequences when we draw up our plans.

5. We must work from a position of strength: First, we must have good knowledge of those countries. Many people erroneously assume that all the East European countries are essentially the same. In fact, they are very different. Take Yugoslavia for example. The country is made up of six republics and two autonomous provinces and has many ethnic groups who are constantly at odds with one another. There is a wide gap between the rich and the poor regions and cities, and regional autonomy has lead to economic separatism among the regions. The richer regions are leaning toward democracy while the poorer districts are rived by revolts. Second, we must recruit and train more qualified people. Years of alienation has resulted in a shortage of qualified personnel who are familiar with the affairs of those countries. The language barrier is an important issue. Besides the language problem, we are also ignorant of the real conditions in those countries and are unfamiliar with their systems, and these also prevent any improvement in our relationship. It is imperative that we set up research institutes, gather more information, assemble the talented people from every social strata, and train more qualified personnel for future use.

**Issues Arising in Transitional Political System**

90CM0039A Hong Kong PAI HSING [THE PEOPLE]  
in Chinese No 211, 1 Mar 90 pp 12-13

[Article by Shi Xiaoran (2457 5135 3544): "Implementing Basic Law Agreement: Hong Kong Government Deploys Transitional Political System"]

[Text] When China and the UK discuss the development of Hong Kong's future political system, the Hong Kong government merely plays the role of the UK's assistant, and can only offer a few opinions, while the actual job of negotiating and bargaining with China belongs to the UK. China and the UK have now reached an agreement, and, based on this, the Basic Law has formulated a model for developing a post-1997 political system. What remains is for the Hong Kong government to specifically implement the content of the Sino-UK agreement before 1997, and this job is also very complicated.

**Sino-UK Agreement Guarantees Direct Elections**

When China and the UK discussed the political system this time, the Hong Kong government consistently held that the "through train" should be retained; that is, the terms of office of legislators elected in 1995 should run until 1999, continuing beyond the 1 July 1997 date, without their having to "get off the train." The "through train" is important for making the people of Hong Kong and foreign investors believe that 1997 will not bring major changes to Hong Kong; it will merely change the national flag and replace Hong Kong's governor with a special administrative region chief executive, while the rest, such as the legislative and executive organs, will not change. The Hong Kong government believes that the less change there is, the more confident about the future will be the Hong Kong people and foreign businessmen.

As Hong Kong officials explained when they secretly leaked to the media that China and the UK had reached an agreement on the future political system, Hong Kong and the UK have won many gains at the negotiating table this time, including the "through train" for Legislative Council members, increasing the pace of political system development, limiting the separate voting mechanism to Legislative Council members' bills, allowing the establishment of a Grand Electoral College in 1995, and raising the restriction on the number of Legislative Council members without Chinese citizenship from 15 percent to 20 percent.

Of these, the ones emphasized most by the Hong Kong government are the "through train" and the pace of political system development. At the end of last year, China and the UK had originally reached an agreement on the "through train" issue, but after the Tiananmen Square incident, relations between China and the UK worsened, and members of the UK Parliament advocated greatly increasing Hong Kong's directly elected legislature seats. A report by Parliament's Foreign Relations Committee even proposed that, in 1995, 100 percent of Legislative Council members be elected in

general elections. China not only opposed stepping up the pace of direct elections, but it also wanted to put Grand Electoral College members into the first plenary session of the special administrative region legislative assembly in 1997, and it also indicated that it would not recognize members of the Grand Electoral College established by the Hong Kong government before 1997, and this may derail the "through train." Now both sides have reached an agreement that direct elections will be increased slightly, but that the Grand Electoral College, through Sino-UK cooperation, can be initiated in 1995 and elect a portion of the members of the Legislative Council, enabling the "through train" to arrive.

**Hong Kong Government Hopes To Increase Direct Elections in 1995**

The pace of political system development, which is also stressed by the Hong Kong government, includes striving to increase the number of directly elected legislature seats from 18 to 20 in 1997; to 24 seats, or 40 percent, in 1999; to 30 seats, or one-half, in 2003; and, in 2007, considering whether to proceed to direct election of all members. This would require only the support of two-thirds of the legislature and approval by executive officials, and would not require adopting separate voting. This is clearly an advance over the assertion made by Chinese officials at the end of last year that there should be a 10-year stabilization period after 1997.

Hong Kong government officials also stated that, when the political system was being studied in 1988, it was agreed that in 1991 the Legislative Council would have only 10 directly elected seats, but that these have now been significantly increased to 18 seats and that this had been very hard to come by.

Although Hong Kong government officials presented this explanation, the statements of Hong Kong's governor reflect another viewpoint. When the content of the Sino-UK agreement was leaked out and the Basic Law was unofficially passed by the drafting committee, Hong Kong governor Sir David Wilson was closely questioned in public by reporters about his feelings. He stated that "at the present stage, we may not yet have attained what we had ideally hoped for; under these circumstances, I hope that later we can renew our efforts to achieve further improvement."

A high-level Hong Kong government official secretly divulged to reporters that the Hong Kong government is somewhat disappointed with the results of the negotiations, and that contradictions exist between Hong Kong and the UK. The Hong Kong government had originally hoped for a greater number of seats in the legislature in 1997, and the present articles of the Basic Law have also disrupted some of the Hong Kong government's plans for the executive and legislative branches.

The Hong Kong government has not expressed discouragement over its inability to attain its expectations regarding the number of directly elected seats. The Hong Kong governor has indicated that directly elected seats

would be added in 1991, and that, based on his experience, there may be very good reasons for continuing to discuss whether it can be further improved. The statement issued by the Hong Kong government on the day the drafting committee passed the political system model said it even more clearly: "We hope that in 1997 the Basic Law will have more directly elected seats, and that after the Chinese Government sees the practical circumstances of the various arrangements that will be implemented in 1991, we can continue our efforts at selling them the idea, and point out that this is in accord with ideals."

However, Deputy Director Li Hou [2621 0683] of the Chinese State Council's Hong Kong-Macao Affairs Office resolutely and decisively replied that the Basic Law would not be revised before 1997. China's reaction is understandable: If the Basic Law can be changed back and forth before 1997, it can only cause the people of Hong Kong to have even less confidence in the Basic Law, and think that what is guaranteed by the Basic Law can be wiped out at any time.

Then, is the reason that the Hong Kong government, and even the governor of Hong Kong, have publicly proposed striving to increase direct elections before 1997 that the Hong Kong government is still unable to get China to accept the Omelco [Office of Members of the Executive and Legislative Councils] consensus or the 4-4-2 proposal, and is hurriedly looking for a chance to extricate itself from an awkward position? Is the Hong Kong governor's statement merely a "soap bubble?"

A Hong Kong government official, in reply to reporters' questions, stated that, in view of how many changes have occurred in the past year and the fact that five years remain until 1995, it could not be known what changes would occur internationally and in China, and neither the Hong Kong government nor the governor of Hong Kong could say where the Chinese officials who are currently negotiating with Hong Kong and the UK will be in 1995, and that therefore, the law may be revised.

He stated that whether direct elections in 1995 would greatly exceed the 20 seats currently stipulated, of course did not depend, as the Hong Kong governor had stated, on whether the 1991 direct elections were conducted "well" or "not well"; what was "well" or "not well"? If the situation in China has changed by that time, it will be "well," and if it has not changed, then even if the 1991 direct elections are conducted well, it will be "not well."

#### **Draft of Composition of 1991 Legislative Council Already Worked Out**

Naturally, regardless of whether direct elections increase in 1995, the government of Hong Kong must develop a system before 1997 which can "pass directly through" to post-1997, in accordance with the current Basic Law and the pace of development agreed upon by China and the UK, and this involves a lot of work for the Hong Kong government to carry out.

Of course, the most urgent task is to work out the composition and selection method of the 1991 Legislative Council, since everything must await the final verdict on the Basic Law and discussions between China and the UK, and there is only a year-and-a-half left.

It is understood that the Hong Kong government already has a rough draft worked out of the composition of the 1991 Legislative Council. If the Legislative Council maintains 56 seats, 18 seats will be directly elected, and 22 seats will be held by functional constituencies. These include two indirectly elected representatives of the Urban Council and the Regional Council, which were previously listed under the electoral college. Ex officio members will be reduced from the current 10 seats to three seats, other officials will attend as nonvoting delegates and answer questions, and appointed members will be reduced from the current 20 seats to 13 seats. If the 1991 Legislative Council is increased to a total of 60 seats, adjustment can be made only with respect to appointed seats, increasing them from 13 to 17 seats.

The year 1991 will be the last session with appointed seats, and this is very important to the Hong Kong government. Not only are appointed members able to balance popularly elected members and allow the Hong Kong government to obtain support; appointed seats are the positions to which the Hong Kong and UK Governments promote talented personnel sympathetic to the Hong Kong and UK Governments.

According to the analysis of one long-time Legislative Council member, when the Hong Kong government appoints members in 1991, it is likely to make major adjustments, eliminating those who already have the ability to run in elections and those who will not run in future elections, and enlisting into the Legislative Council as many others as possible who are likely to run in future elections.

Whether 13 or 17 seats will be appointed seats is mainly up to the Hong Kong government. As to the six seats added to the functional constituencies, naturally, in a situation in which there is not enough to go around, some people will be pleased and others will be dissatisfied.

Instead, the greatest influence will come from how the direct election districts are divided. It is known from Hong Kong government information that the initial trend was toward dividing Hong Kong into about five election districts; each election district would have over 1 million voters, and would elect from three to four Legislative Council members. As for the idea of a Hong Kong-wide election or 18 small election districts, the possibility is very slight. The problems of a Hong Kong-wide election are too complicated, and it is feared that the people of Hong Kong cannot cope with electing 18 candidates out of several dozen in one vote, and that small election districts overly favor democratic factions and local personages.

Because the size of the election district directly influences the chances for victory in direct elections of industrial and commercial circles, democratic factions, and well-known appointed members, it is believed that there is likely to be considerable debate when the Executive Council makes its final decision.

Compared with preparing for the 1995 Legislative Council, the task of preparing for 1991 can be regarded as very simple; only the time is a little more pressing. The Hong Kong government will work out many plans concerning the 1995 Legislative Council, including electing the Legislative Council chairman through mutual elections; increasing the number of seats returned by functional constituencies from 20 to 30; having China and Hong Kong cooperate in establishing a Grand Electoral College; not allowing the number of Executive and Legislative Council members with foreign citizenship and right of abode to exceed 20 percent of the total number; formulating an election law; and establishing new operations between the executive and legislative.

#### **Preparatory Work for 1995 Complicated**

With regard to the issue of electing the Legislative Council chairman through mutual elections, the Hong Kong government had initially reached a decision to do this, and the governor of Hong Kong had also disclosed that the Legislative Council chairman would be elected by mutual elections in 1995, but that, beginning in 1991, he would at certain times find someone to represent him in presiding over Legislative Council meetings.

In the past, when the Hong Kong governor has been absent from Hong Kong, the chief secretary has acted as the governor's deputy and presided over the Legislative Council. Naturally, the representative referred to by the Hong Kong governor is not the chief secretary: Beginning in 1995, the chief secretary will not be able to be in the Legislative Council. The most appropriate choice would be the senior legislative councillor.

The seats returned by functional constituencies will be increased to 30, and these 30 seats will not be increased or decreased at least until 2007. In 1991, too, it will be impossible to win over groups joining the functional constituencies, and 1995 will be the last chance. The Hong Kong government wants to decide on the distribution of the newly added eight seats, and they will become more politicized.

The Chinese and Hong Kong governments have cooperated in establishing an election committee to elect Grand Electoral College Legislative Council members, and both China and the UK have tacit agreements concerning the election committee which include the following: The election committee will not be an authoritative body or an executive body; it will be dissolved after every election; it will include every level, and the representative constituencies and functional constituencies will be different; the election committee's selection of candidates will be fair and simple; and the election committee will cast secret ballots.

However, specifically what groups the election committee should include and how the groups shall elect representatives to the election committee, will also directly affect whether the election committee will be controlled by a certain side or a certain level.

As for restricting legislature members with foreign citizenship to under 12 percent, the position of the UK Government is that it is difficult for it to legally restrict participation in elections by its own people in its own territories (including colonies). The UK Government can use high-flown words, but the Hong Kong government will certainly deal specifically with this problem; if the Legislative Council members elected in 1995 exceed 20 percent, the Hong Kong government will be unable to achieve its goal of a "through train." However, the governor of Hong Kong stated a few days ago that it was very difficult to determine how to proceed, and that at present he did not know how to begin actual implementation.

An election law should be formulated, because political parties will be established one after another starting this year, and although they may not yet be fully mature in the 1991 election, Hong Kong's political parties should have made considerable progress by 1995, and the Hong Kong government will no longer be able to ignore them, so that the election law will also have to be revised.

When a new executive and legislative operation is established, and all of the ex officio members withdraw from the Legislative Council by 1995, how will government proposals be submitted to the Legislative Council? When there no longer are appointed positions and ex officio members, how will the executive organ obtain majority support in the Legislative Council? The semi-ministerial system which the Hong Kong government worked out in the past appointed Legislative Council members to assume the important office of committee chairman, and these members could also enter the Executive Council. Will these arrangements contravene the Basic Law, and how should they be implemented?

There are also two even bigger topics which the Hong Kong government must deal with during the transitional period: the confidence of Hong Kong's people and Sino-Hong Kong relations.

#### **Must Deal With Sino-Hong Kong Relations and the Issue of Confidence**

The reaction of the people of Hong Kong to the promulgation of the Basic Law has been lukewarm. The Hong Kong government believes it is good, citizens have also generally accepted the Basic Law, and there have been few protest activities, and this has invariably reduced the immediate pressure which the Hong Kong government must face.

According to the analysis of a Hong Kong government official, the best thing about the Basic Law is that it has not further undermined the confidence of the people of Hong Kong. Naturally, it has not increased their confidence either, but, with the Basic Law resolved, the Hong Kong people have one less chance of being dealt a blow. The Hong Kong people are now generally stabilized, and are willing to

watch the development of Hong Kong for two to three years before deciding whether to leave. The Hong Kong government hopes to do its utmost to maintain Hong Kong's stability and prosperity, and has spent over HK\$10 billion [Hong Kong dollars] to renovate airports and port facilities. This is because society has an actual need, and it is not constructing rose gardens just for the sake of constructing rose gardens; the hope for rose gardens is just a by-product. The efforts of the Hong Kong government are to prolong the confidence of the Hong Kong people for two to three years, or to make them willing, after two or three years, to stay and watch for another two or three years; in this way, there is a chance of making a smooth transition through 1997.

As for making the people of Hong Kong truly confident in the future, he stated that this could not be done by the Hong Kong government. It was because of China and the Tiananmen Incident that the people of Hong Kong lacked confidence, and whoever started the trouble should end it. This requires China to change in order for the Hong Kong people to have confidence.

As for Sino-Hong Kong relations, China believes that when the NPC [National People's Congress] passes the Basic Law in March, Hong Kong's transitional period will enter its latter stage, which means that China will increase its participation in transition-stage affairs and ensure a smooth transition. Naturally, greater participation undoubtedly means greater interference, and there is only a slight difference between China helping and being more of a hindrance than a help. China has indicated that it is paying close attention to Hong Kong's future new airport, bill of rights, and the continuity and stability of civil servants, and the matters which China will pay close attention to will inevitably increase more and more. It will not be easy for Hong Kong to maintain a balance between effectively controlling Hong Kong and allowing Chinese participation, and unless care is taken, it will become a lame duck that can only kowtow.

The agreement reached by China and the UK concerning future political system development is regarded as a compromise by each side in the face of reality, and Sino-UK relations will also become more relaxed because of this. However, it is understood that many of the contacts between China and Hong Kong have not yet been recovered. Hong Kong government officials believe that they must wait and see whether Hong Kong and China can be reconciled, and are very cautious about the future of Sino-Hong Kong relations.

#### **Data Confirm Dependence on Trade With Mainland**

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[Text] Hong Kong's dependence on China as a production base is confirmed by Census and Statistics Department figures which for the first time distinguish between

the territory's mainland imports and exports that relate to outward processing and those which do not.

According to the figures, which cover the final quarter of last year, some 59 percent of Hong Kong's imports from China—or \$31.59 billion out of \$53.36 billion—was related to outward processing, while 56 percent of the exports to China—or \$20.72 billion out of \$35.98 billion—was connected to outward processing.

Of these, 78 percent, or \$8.55 billion of \$10.98 billion, was domestic exports and 47 percent, or \$11.72 billion of \$25 billion, was reexports.

Mr Miron Mushkat, the director of regional economic research at Baring Securities, said the figures illustrated the extent of Hong Kong's dependence on China.

"We had assumed all along that China had become a very important production base for Hong Kong, rather than an export market," he said.

"The extent of the dependence is reflected in the figures.

"But they confirm our prejudices rather than shed new light on the situation. We have certain perceptions about Hong Kong and China's trade relationship, and these figures are broadly within our expectations."

For the whole of last year, about 58 percent of the territory's imports from China was related to outward processing, while 53 percent of total exports to China was for outward processing.

Of these, 76 percent was for domestic exports and 44 percent was for re-export to China.

Exports to China for outward processing are exports of raw materials or semi-manufactured goods, with the resulting processed goods subsequently being re-imported into Hong Kong.

Imports from China related to outward processing are goods of which all or part of their raw materials or semi-manufactured goods are under contractual arrangement exported from or through Hong Kong to China for processing.

In value terms for the whole of last year, outward processing imports from China amounted to \$113.58 billion of a total \$195.39 billion in Hong Kong imports from China.

For the same period, outward processing exports to China amounted to \$76.86 billion of a total \$145.05 billion in exports to the mainland, while outward processing domestic exports accounted for \$31.96 billion out of a total \$42.08 billion.

Re-exports made up 444.91 billion out of a total \$102.97 billion.

"The findings facilitate a more informed analysis of the nature of Hong Kong-China trade and are a useful supplement to the regular trade statistics," a Census and Statistics Department spokesman said yesterday.